

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

FORM 10-K

MARK ONE

Annual Report Pursuant to Section 13 or 15(d) of the Securities Act of 1934

For the Fiscal Year Ended December 31, 1998

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

DELAWARE  
(State or other jurisdiction of incorporation or organization)

25-1615902  
(IRS Employer Identification No.)

1001 AIR BRAKE AVENUE  
WILMERDING, PENNSYLVANIA 15148  
(Address of principal executive offices, including zip code)

(412) 825-1000  
(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF CLASS

NAME OF EXCHANGE ON WHICH REGISTERED

COMMON STOCK, PAR VALUE \$.01 PER SHARE

NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: None

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 and (2) has been subject to such filing requirements for at least the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of February 24, 1999, 33,926,819 shares of Common Stock of the registrant were issued and outstanding, of which 8,533,691 shares were unallocated ESOP shares. The registrant estimates that as of February 24, 1999, the aggregate market value of the voting shares held by non-affiliates of the registrant was approximately \$294.3 million based on the closing price on the New York Stock Exchange for such stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the registrant's Annual Meeting of Stockholders to be held on May 19, 1999 are incorporated by reference into Part III of this Form 10-K.

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## PART I

## ITEM 1. BUSINESS

## GENERAL

Westinghouse Air Brake Company is North America's largest manufacturer of value-added equipment for locomotives, railway freight cars and passenger transit vehicles. We believe that we maintain a market share in North America in excess of 50% for our primary braking related equipment and a significant market share in North America for our other principal products. We also sell our products in Europe, Africa, Australia, South America and Asia. Our major products are intended to enhance safety, improve productivity and reduce maintenance costs for our customers. Our major product offerings include electronic controls and monitors, air brakes, couplers, door controls, draft gears and brake shoes. We aggressively pursue technological advances with respect to both new product development and product enhancements.

All references to "we", "our", "us", the "Company" and "WABCO" refer to Westinghouse Air Brake Company, a Delaware corporation, and its subsidiaries.

## INDUSTRY OVERVIEW

Rail traffic, in terms of both freight and passengers, is a key factor underlying the demand for the Company's products. Government investment in public rail transportation also plays a significant role. Additionally, railroads continuously seek to increase the efficiency and productivity of their rail operations in order to improve profitability. We design an array of products to meet this goal and believe that through our products and service offerings, we are well positioned to contribute to and benefit from the railroad industry's drive to improve efficiency and productivity. For example, our end of train device, automated single car tester and electro-pneumatic brake all provide significant cost saving opportunities for our customers.

Demand for North American locomotive and freight car products remains strong due to:

- continued growth in revenue ton-miles in the United States (defined as weight times distance traveled by Class 1 railroads), of 1,296 billion in 1997 as compared to 1,067 billion in 1992;
- continued strong delivery of new freight cars:
- aging freight car fleet, with an average age of 17.8 years in 1997 with approximately 25% over 25 years old; and
- the desire of railroads to gain efficiency improvements from larger, more efficient aluminum cars;
- aging locomotive fleet, with more than 52% of the fleet over 17 years old; and
- newer AC locomotives, which are more powerful and efficient than DC locomotives.

Demand for passenger transit original equipment manufacturer ("OEM") and aftermarket products is driven by:

- replacement, building and/or expansion programs by transit authorities; these programs are funded in part by federal and state governments, including the recently reauthorized Intermodal Surface Transportation and Efficiency Act (providing up to \$42 billion to be made available, subject to appropriations, for transit-related infrastructure between 1998 and 2003); and
- aging United States passenger transit car fleet, with an average age of 21.6 years in 1997 as compared to 19.3 years in 1995.

## BUSINESS SEGMENTS AND PRODUCTS

Approximately half of our net sales in 1998 were derived from products sold directly to North American OEMs of locomotives, railway freight cars and passenger transit vehicles. The balance of our net sales were generated from the sale of replacement parts, repair services and upgrade work purchased by operators of rail vehicles such as railroads, transit authorities, utilities and leasing companies (collectively, "end-users" or the "aftermarket"). We believe that our substantial installed base of OEM products is a significant competitive advantage in providing products and services in the aftermarket in that end-users will likely purchase our high quality replacement products especially when they are safety and performance related. We believe that we are less adversely affected than our competitors by fluctuations in domestic demand for new railroad vehicles because of our substantial aftermarket and international sales.

Through our business segments, we also provide outsourced value-added services to the railroad and passenger transit aftermarkets, operating 15 service and upgrade sites in North America and the United

Kingdom. Our service and upgrade centers enable us to capitalize on the increased outsourcing of repair business by railroads and transit authorities. Our acquisition in April 1998 of RFS (E), Ltd., a United Kingdom refurbisher of locomotives and freight cars, and the October 1998 acquisition of the railroad service center business of Comet Industries, Inc., have significantly increased our repair and service offerings.

Our products and services are delivered through three principal business segments. Within each group, our new product development programs provide us with an array of product upgrades that strengthen our OEM and aftermarket sales. Our products and services, by business group, include:

**RAILROAD GROUP** -- Includes products geared to the production of freight cars and locomotives, including braking control equipment and train coupler systems. Revenues are derived principally from OEM and aftermarket sales and to a lesser extent, repairs and services. Revenues from these products, as a percentage of total consolidated revenues, have decreased from 65% in 1996 to 58% in 1998. Specific product lines within the Railroad Group are:

- **FREIGHT CAR** -- We manufacture, sell and service air brake equipment, brake valves, draft gears, hand brakes and slack adjusters for freight cars. Net sales for typical freight cars can vary considerably based upon the type and purpose of the freight platform with articulated or intermodal cars generally having the highest WABCO product content. The Company's traditional freight products include the ABX Freight Brake Valve, the Mark Series draft gears, hand brakes and slack adjusters, and SAC-1(TM) Articulated Coupler.
- **LOCOMOTIVE** -- We manufacture, sell and service air brake equipment, compressors, air dryers, slack adjusters, brake cylinders, and monitoring and control equipment. Historically, our most significant locomotive products have been the 26-C and 30-A pneumatic control equipment and air-cooled compressors.
- **ELECTRONICS** -- We manufacture, sell and service high-quality electronics for the railroads in the form of on-board systems and braking for locomotives and freight cars. We are an industry leader in insulating or "hardening" electronic components to protect them from severe conditions, including extreme temperatures and high/shock vibration environments. Our new product development effort has focused on electronic technology for brakes and controls, and over the past several years, we introduced a number of significant new products including the EPIC(R) Electronic Brake, PowerLink(TM), compressor aftercoolers, Train Trax(TM), Trainlink(TM), Train Sentry III(R), Fuellink(TM) and Armadillo(TM). Our acquisition of Rockwell's Railroad Electronics division ("Rockwell") in October 1998 significantly strengthened our capabilities by expanding our freight electronic air brake capability and broadening our electronics product line to display and positioning systems, data communications and monitoring products, all in line with the railroads' desire to increase productivity and safety by the application of electronic equipment.

**TRANSIT GROUP** -- Includes products for passenger transit vehicles (typically subways, rail and busses). Revenues are derived primarily from OEM and aftermarket sales. Revenues from these products, as a percentage of total consolidated revenues, increased to 32% in 1998 from 22% in 1996.

We manufacture, sell and service electronic brake equipment, pneumatic control equipment, air compressors, tread brakes and disc brakes, couplers, collection equipment, overhead electrification, monitoring systems, wheels, climate control and door equipment and other components for passenger transit vehicles. In 1997, we received contracts valued at \$150 million to provide equipment for 1,080 passenger transit cars for the Metropolitan Transportation Authority/New York City Transit (the "MTA"). We expect deliveries to commence in the second half of 1999.

Substantially all of our principal passenger transit products are engineered to customer specifications. Consequently, there is less standardization among these products than there is with the Railroad Group products. Because the market for OEM orders has been at a cyclical low during the past several years, we believe the OEM market presents an opportunity for improved growth during the next several years.

**MOLDED PRODUCTS GROUP** -- We manufacture and sell brake shoes, disc brake pads and other rubber products. Many rubber components produced by this group are used in the manufacturing process by our other business groups. Molded Products Group revenues represent, as a percentage of total consolidated revenues, slightly over 10% for the last three years. Approximately 90% of Molded Products Group's revenue are derived from aftermarket sales.

For additional information on our business segments, see Note 17 to the "Notes to Consolidated Financial Statements" included elsewhere in this report.

## STRATEGY

We are committed to enhancing our position as a producer of value-added equipment for the rail industry and will continue to seek ways to increase our content per rail vehicle. Building on our leading market share, strong aftermarket presence and technological leadership, we are pursuing a strategy involving five key elements:

### Expand Technology-Driven New Product Development and Product Lines

- We plan to continue to emphasize research and development to create new and improved products to increase our market share and profitability.
- We are focusing on technological advances, especially in the areas of electronics, braking products and other on-board systems as a means of new product growth.

### Increase Repair and Upgrade Services

- By continuing to leverage our broad product offering and our large installed product base, we intend to expand our presence in the repair and upgrade services market.
- We believe our services are more cost effective than, and we offer product upgrades not available in, most independent repair shops.
- To capitalize on the growing aftermarket, we are developing and marketing retrofit and upgrade products that serve as a platform for offering additional installation, replacement parts and repair services to customers.

### Grow International Presence

- We believe that international sales represent a significant opportunity for further growth.
- Our net sales outside of the United States and Canada comprised approximately 17% of our net sales for the year ended December 31, 1998, compared to 4% in 1995 (See Note 17 to "Notes to Consolidated Financial Statements"). We intend to increase our existing international sales by:
  - acquisitions,
  - direct sales of products through our subsidiaries and licensees; and
  - forming joint ventures with railway suppliers having a strong presence in their local markets.

### Pursue Strategic Acquisitions

- We intend to pursue strategic acquisitions that expand our product lines, increase our aftermarket business, increase international sales and increase our technical capabilities.
- An integral component of our acquisition strategy is to realize revenue growth and cost savings through the integration of the acquired business.

### Further Improve Manufacturing Efficiency and Quality

We intend to retain what we consider to be a leading position as a low-cost producer in the industry while maintaining world-class product quality, technology and customer responsiveness. We are dedicated to continuous improvement across all phases of our business through:

- our proven Kaizen employee-directed initiatives (a Japanese-developed team concept used to continuously improve quality, lead time and productivity and to reduce costs); and
- our total Quality Improvement Program (an ongoing program to continuously improve the manufacturing process by encouraging feedback from work "teams", continuing worker training, statistical engineering, monitoring systems and evaluation of the process); and
- the WABCO Performance System model to identify 'lean manufacturing' principles and roadmap to drive customer satisfaction and enterprise value to world class levels.

These efforts enable us to streamline processes, improve product quality and customer satisfaction, reduce product cycle times and respond more rapidly to market developments. We believe our management and employees are appropriately incentivized to carry out our strategy. Management owns approximately 31% of our Common Stock and our employees own Common Stock through an Employee Stock Ownership Plan ("ESOP").

## BACKLOG

As of December 31, 1998, the Company had a total backlog of firm orders with an aggregate sales price of approximately \$460.9 million, compared to \$376.3 million as of December 31, 1997. Of the December 31, 1998 amount, \$325.0 million was attributable to passenger transit products, including products for cars deliverable to the MTA, and the balance was attributable to railway and other products. Other than the transit market, backlog is not a significant component of the Company's business, and management believes it is not an important indicator of future business performance. Because of the Company's quick turnaround time, the Company's locomotive and freight customers tend to order products from the Company on an as-needed basis.

With respect to OEM passenger transit products, there is a longer lead-time for car deliveries and, accordingly, the Company carries a larger backlog of orders. The Company's contracts are subject to standard industry cancellation provisions, including cancellations on short notice or upon completion of designated stages, including, without limitation, contracts relating to the MTA. Substantial scope-of-work adjustments are common. For these and other reasons, work in the Company's backlog may be delayed or cancelled and backlog should not be relied upon as an indicator of the Company's future performance.

The railroad industry, in general, has historically been subject to fluctuations due to overall economic conditions and the level of use of alternate methods of transportation. Based upon widely available industry data concerning freight and locomotive OEM backlog and projected 1999 freight car deliveries (that indicate a possible decline from 1998 production), the Company believes demand for its products will remain reasonably strong for the foreseeable future.

## ENGINEERING AND DEVELOPMENT

In furtherance of its strategy of using technology to develop new products, the Company is actively engaged in a variety of engineering and development activities. For the fiscal years ended December 31, 1998, 1997 and 1996, the Company incurred costs of approximately \$30.4 million, \$24.4 million, and \$18.2 million, respectively, on product development and improvement activities (exclusive of manufacturing support). Such expenditures represented 4.5%, 4.3%, and 4.0% of net sales for the same periods, respectively. From time to time, the Company conducts specific research projects in conjunction with universities, customers and other railroad product suppliers.

The Company's engineering and development program is largely focused upon new braking technologies, with an emphasis on the application of electronics to traditional pneumatic equipment. Electronic actuation of braking has long been a part of the Company's transit product line but interchangeability, connectivity and durability have presented problems to the industry in establishing electronics in freight railway applications. Efforts are under way to develop the major components of both hard-wired and radio-activated braking equipment.

## INTELLECTUAL PROPERTY

The Company has numerous U.S. patents, patent applications pending and trademarks as well as foreign patents and trademarks throughout the world. The Company also relies on a combination of trade secrets and other intellectual property laws, nondisclosure agreements and other protective measures to establish and protect its proprietary rights in its intellectual property.

Certain trademarks, among them the name WABCO(R), were acquired or licensed by the Company from American Standard Inc. in 1990 pursuant to its acquisition of the North American operations of the Railway Products Group of American Standard (the "1990 Acquisition").

The Company is a party, as licensor and licensee, to a variety of license agreements. The Company does not believe that any single agreement, other than the SAB License discussed in the following paragraph, is of material importance to its business as a whole.

The Company and SAB WABCO Holdings B.V. ("SAB WABCO") entered into a license agreement (the "SAB License") on December 31, 1993, pursuant to which SAB WABCO granted the Company a license to the intellectual property and know-how related to the manufacturing and marketing of certain disc brakes, tread brakes and low noise and resilient wheel products. SAB WABCO is a Swedish corporation that was a former affiliate of the Company, both having been owned by the same parent prior to 1990. The Company is authorized to manufacture and sell the licensed products in North America (including to OEM manufacturers located outside North America if such licensed products are incorporated into a final

product to be sold in North America). SAB WABCO has a right of first refusal to supply the Company with bought-in components of the licensed products on commercially competitive terms. To the extent SAB WABCO files additional patent or trademark applications, or develops additional know-how in connection with the licensed products, such additional intellectual property and know-how are also subject to the SAB License. The Company may, at its expense, request the service of SAB WABCO in manufacturing, installing, testing and maintaining the licensed products and providing customer support. SAB WABCO is entitled to a free, nonexclusive license of the use of any improvements to the licensed products developed by the Company. If any such improvements are patented by the Company, SAB WABCO has the right to request the transfer of such patents upon payment of reasonable compensation therefor; in such cases, the Company is entitled to a free, nonexclusive license to use the patented product. The Company is required to pay a lump sum fee for certain licensed products as well as royalties based on specified percentages of sales. The license expires December 31, 2003, but may be renewed for additional one-year terms.

In connection with the Company's recapitalization in January 1995, the Company and SAB WABCO agreed (i) to use their best efforts to negotiate an agreement to distribute each other's products, (ii) to explore the feasibility of a joint venture to expand into regions where neither is currently represented, (iii) that the SAB License will be amended to include additional disc brake and tread brake technology, (iv) that SAB WABCO will in the future grant to the Company a license for the manufacture and sale of electronic brake equipment that it designs, (v) that SAB WABCO will grant to the Company the right to purchase SAB WABCO's option on 40% of the shares in SAB WABCO de Brasil, and (vi) that the Company will have a right of first refusal to purchase SAB WABCO if prior to December 31, 1999 the current owner decides to sell more than 50% of its interest in SAB WABCO to a third party, subject to certain exceptions. There is no assurance that the Company and SAB WABCO will reach agreement on issues relating to future cooperation or that the Company will be able to acquire SAB WABCO. Accordingly, the Company and SAB WABCO could be competitors in international markets.

#### CUSTOMERS

A few customers within each business segment represent a significant portion of the Company's net sales; however, no one customer represented more than 10% of the Company's consolidated revenues in 1998. The loss of a few key customers within the Company's Railroad and Transit Group could have an adverse effect on the Company's financial condition, results of operations and liquidity.

#### COMPETITION

The Company operates in a competitive marketplace. Price competition is strong and the existence of cost conscious purchasers of a limited number has historically limited WABCO's ability to increase prices. In addition to price, competition is based on product performance and technological leadership, quality, reliability of delivery and customer service and support. The Company's principal competitors vary to some extent across its principal product lines. However, within North America, New York Air Brake Company, a subsidiary of the German air brake producer Knorr-Bremse AG (collectively, "NYAB/ Knorr"), is the Company's principal overall OEM competitor. The Company's competition for locomotive, freight and passenger transit service and repair business is primarily from the railroads' and passenger transit authorities' in-house operations and NYAB/Knorr.

#### EMPLOYEES

As of December 31, 1998, we employed approximately 4,300 employees, approximately 1,200 of whom were unionized. The majority of employees subject to collective bargaining agreements are within North America and these agreements are generally effective through 2001 and 2002.

The majority of non-union employees in the United States (approximately 2,000 employees) participate in the ESOP.

#### REGULATION

In the course of its operations, the Company is subject to various regulations, agencies and entities. In the United States, these include principally the Federal Railroad Administration ("FRA") and the Association of American Railroads ("AAR").

The FRA administers and enforces federal laws and regulations relating to railroad safety. These regulations govern equipment and safety standards for

freight cars and other rail equipment used in interstate commerce.

The AAR promulgates a wide variety of rules and regulations governing safety and design of equipment, relationships among railroads with respect to railcars in interchange and other matters. The AAR also certifies railcar builders and component manufacturers that provide equipment for use on railroads in the United States. New products generally must undergo AAR testing and approval processes.

As a result of these regulations and regulations in other countries in which the Company derives its revenues, we must maintain certain certifications as a component manufacturer and for products we sell.

#### ENVIRONMENTAL MATTERS

We are subject to a variety of environmental laws and regulations governing discharges to air and water, the handling, storage and disposal of hazardous or solid waste materials and the remediation of contamination associated with releases of hazardous substances. The Company believes its operations currently comply in all material respects with all of the various environmental laws and regulations applicable to our business; however, there can be no assurance that environmental requirements will not change in the future or that we will not incur significant costs to comply with such requirements.

Under the terms of the purchase agreement and related documents for the 1990 Acquisition, American Standard indemnified the Company for certain items including environmental claims. American Standard has indemnified the Company for any claims, losses, costs and expenses arising from (i) claims made in connection with any of the environmental matters disclosed by American Standard to the Company at the time of the 1990 Acquisition, (ii) any pollution or threat to human health or the environment related to American Standard's (or any previous owner's or operator's) ownership or operation of the properties acquired by WABCO in the 1990 Acquisition, which pollution or threat was caused or arises out of conditions existing prior to the 1990 Acquisition (limited to environmental laws in effect as of December 31, 1991), and (iii) any material claim ("Environmental Claim") alleging potential liability for the release of pollutants or the violation of any federal, state or local laws or regulations relating to pollution or protection of human health or the environment, for which American Standard has retained liability. Such indemnity covers investigatory costs only if the investigation is undertaken pursuant to a larger Environmental Claim and to the extent of American Standard's pro-rata liability for such larger Environmental Claim. American Standard has no obligation to indemnify for investigatory costs incurred by the Company independently or otherwise unrelated to an indemnifiable event. American Standard's indemnification obligations are limited to aggregate amounts in excess of \$500,000. The Company has exceeded this deductible.

In addition, American Standard's indemnification obligation with respect to friction product related claims only extends to 50% of the amount claimed, up to a maximum of \$14 million (provided liability is asserted directly and solely against the Company's friction products subsidiary, RFPC).

The indemnification obligations with respect to third party claims survive until 2000, except those claims which are timely asserted continue until resolved. If American Standard should be unable to meet its obligations under this indemnity, the Company will be responsible for such items. In the opinion of management, American Standard has the present ability to meet its indemnification obligations.

The Company, through RFPC, has been named, along with other parties, as a potentially responsible party under the North Carolina Inactive Sites Response Act because of an alleged release or threat of release of hazardous substances at the "Old James Landfill" site in Laurinburg, NC. The Company believes that any cleanup costs for which it may be held responsible are covered by (i) the American Standard indemnity discussed above and (ii) an insurance policy for environmental claims provided by Manville Corporation, the former 50% owner of RFPC, in connection with the Company's 1992 acquisition of Manville Corporation's interest in RFPC. Pursuant to the terms of the purchase agreement for the acquisition of Manville Corporation's interest in RFPC, Rocky Mountain International Insurance, Ltd., an affiliate of Manville Corporation, provided an insurance policy to cover any claims, losses, costs and expenses relating to, among other things, environmental liabilities arising from conditions existing at the former Manville site used by RFPC prior to the acquisition (limited to environmental laws in effect as of July 1992).

This insurance policy is the sole remedy for the Company with respect to covered claims. The insurance policy survives until July 2002. Active claims for conditions existing prior to July 1992 will con-

tinue to be covered beyond July 2002. The aggregate limit of coverage under the insurance policy provided by Manville Corporation is \$12.5 million. The Company has submitted claims and has received recoveries under the policy for costs of clean up imposed on or incurred by the Company in connection with the "Old James Landfill", and Rocky Mountain has acknowledged coverage under the policy, subject to the stated policy exclusions. In addition to the insurance policy provided by Manville Corporation, American Standard's indemnification obligations described above cover 50% of RFPC-related claims. In January 1998, the Company discovered petroleum contaminated soils in the vicinity of the oil-water separator at the Laurinburg facility. The Company has filed a notice of claim requesting coverage under the insurance policy for clean up costs associated with removal of the contaminated soils, which were less than \$30,000.

The Company believes that the indemnification agreements and insurance policy referred to above are adequate to cover any potential liabilities during their respective terms arising in connection with the above-described environmental conditions. None of the insurance or indemnification agreements is currently the subject of any dispute.

## ITEM 2. PROPERTIES

The following table provides certain summary information with respect to the principal facilities owned or leased by the Company. The Company believes that its facilities and equipment are in good condition and that, together with scheduled capital improvements, they are adequate for its present and immediately projected needs. The Greensburg, PA, Germantown, MD, Niles, IL and Chicago, IL properties are subject to mortgages to secure the Company's indebtedness under the Credit Agreement. The Company's corporate headquarters are located in the Wilmerding, PA site.

LOCATION	PRIMARY USE	PRIMARY SEGMENT	OWN/LEASE	APPROXIMATE SQUARE FEET
-----				
DOMESTIC				
Wilmerding, PA	Manufacturing/Service	Railroad Group	Own	850,000(1)
Chicago, IL	Manufacturing	Railroad Group	Own	111,500
Germantown, MD	Manufacturing/Service	Railroad Group	Own	80,000
Kansas City, MO	Service Center	Railroad Group	Lease	55,891
Bossier City, LA	Service Center	Railroad Group	Lease	40,000
Carson City, NV	Service Center	Railroad Group	Lease	22,000
Columbia, SC	Service Center	Railroad Group	Lease	12,250
Chicago, IL	Service Center	Railroad Group	Lease	19,200
Niles, IL	Manufacturing	Transit Group	Own	355,300
Spartanburg, SC	Manufacturing/Service	Transit Group	Lease	183,600
Plattsburgh, NY	Manufacturing	Transit Group	Lease	64,000
Elmsford, NY	Service Center	Transit Group	Lease	28,000
Sun Valley, CA	Service Center	Transit Group	Lease	4,000
Atlanta, GA	Service Center	Transit Group	Lease	1,200
Laurinburg, NC	Manufacturing	Molded Products Group	Own	105,000
Greensburg, PA	Manufacturing	Molded Products Group	Own	97,830
Ball Ground, GA	Manufacturing	Molded Products Group	Lease	30,000
INTERNATIONAL				
Doncaster, UK	Manufacturing/Service	Railroad Group	Own	330,000
Stoney Creek, Ontario	Manufacturing/Service	Railroad Group	Own	189,170
Wallaceburg, Ontario	Foundry	Railroad Group	Own	127,555
Burlington, Ontario	Manufacturing	Railroad Group	Own	46,209
Burlington, Ontario	Manufacturing	Railroad Group	Own	28,165
Winnipeg, Manitoba	Service Center	Railroad Group	Lease	20,000
St-Laurent, Quebec	Manufacturing	Transit Group	Own	106,000
Sassuolo, Italy	Manufacturing	Transit Group	Lease	30,000
Burton on Trent, UK	Manufacturing	Transit Group	Lease	18,000
Etobicoke, Ontario	Service Center	Transit Group	Lease	3,800
Wetherill Park, NSW	Manufacturing	Molded Products Group	Lease	73,141
Schweighouse, France	Manufacturing	Molded Products Group	Lease	30,000
Tottenham, VIC	Manufacturing	Molded Products Group	Lease	26,910
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(1) Approximately 250,000 square feet are currently used in connection with the Company's operations.

The above information does not include certain facilities scheduled to be closed during 1999. Leases on the above facilities are long-term and generally include options to renew.

## ITEM 3. LEGAL PROCEEDINGS

There are various pending lawsuits and claims arising out of the conduct of the Company's business. These include claims by employees of third parties who allege they were exposed to asbestos while handling American Standard products manufactured prior to the 1990 Acquisition. American Standard discontinued the use of asbestos in its products in 1980. American Standard has indemnified the Company against these claims and is defending them. Under the terms of the purchase agreement and related documents for the 1990 Acquisition, American Standard has indemnified the Company for any claims, losses, costs and expenses arising from, among other things, product liability claims by third parties, intellectual property infringement actions and any other claims or proceedings, in each case to the extent they related to events occurring, products sold or services rendered prior to the 1990 Acquisition and affect the properties acquired by the Company. American Standard's indemnification obligations are limited to aggregate amounts in excess of \$500,000 and, as described in Item 1, this deductible has already been exceeded. In addition, American Standard's indemnification obligation with respect to RFPC-related claims only extends to 50% of the amount claimed, up to a maximum of \$14 million (provided liability is asserted directly and solely against RFPC). The indemnification obligations with respect to third party claims survive until 2000. An insurance policy provided by Manville Corporation, the former 50% owner of RFPC, covers the other 50% of RFPC related claims up to a maximum of \$12.5 million.

On February 12, 1999, GE Harris Railway Electronics, LLC and GE Harris Railway Electronic Services, LLC (collectively, "GE Harris") brought suit against the Company for alleged patent infringement and unfair competition related to a communications system installed in one of the Company's products. GE Harris is seeking to prohibit the Company from future infringement and is seeking an unspecified amount of money damages to recover, in part, royalties. While this lawsuit is in the earliest stages, the Company believes the technology developed by the Company does not infringe on the GE Harris patents. The Company plans to contest the infringement claims vigorously, in order to present alternative product lines to customers in the rail industry.

From time to time the Company is involved in litigation relating to claims arising out of its operations in the ordinary course of business. As of the date hereof, the Company is involved in no litigation that the Company believes will have a material adverse effect on its financial condition, results of operations, or liquidity. The Company historically has not been required to pay any material liability claims.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of the Company during the fiscal quarter ended December 31, 1998.

## EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain information with respect to executive officers of the Company as of March 2, 1999.

NAME	AGE	OFFICE WITH THE COMPANY
William E. Kassling	55	Director, Chairman and Chief Executive Officer
Gregory T. H. Davies	52	Director, President and Chief Operating Officer
Robert J. Brooks	54	Director and Chief Financial Officer
Emilio A. Fernandez	54	Director and Vice Chairman
John M. Meister	51	Executive Vice President and General Manager, Transit Product Group
Timothy J. Logan	46	Vice President, International
George A. Socher	50	Vice President and Corporate Controller
Kevin P. Conner	41	Vice President, Human Resources
Alvaro Garcia-Tunon	46	Vice President and Treasurer

WILLIAM E. KASSLING has been a director, Chairman and Chief Executive Officer of the Company since the 1990 Acquisition. Mr. Kassling was also President of WABCO from 1990 through February 1998. From 1984 until 1990 he headed the Railway Products Group of American Standard Inc. Between 1980 and 1984 he headed American Standard's Building Specialties Group and between 1978 and 1980 he headed Business Planning for American Standard. Mr. Kassling is a director of Aearo Corporation, Scientific Atlanta, Inc. and Commercial Intertech, Inc.

GREGORY T. H. DAVIES joined the Company in March 1998 as President and Chief Operating Officer and in February 1999 became a director. Mr. Davies was formerly with Danaher Corporation since 1988, where he was Vice President and Group Executive responsible for its Jacobs Vehicle Systems, Delta Consolidated Industries and A.L. Hyde Corporation operating units. Prior to that, he held executive positions at Cummins Engine Company and Ford Motor Company.

ROBERT J. BROOKS has been a director and Chief Financial Officer of the Company since the 1990 Acquisition. From 1986 until 1990 he served as worldwide Vice President, Finance for the Railway Products Group of American Standard. Mr. Brooks is a director of Crucible Materials Corp.

EMILIO A. FERNANDEZ was named Vice Chairman in March 1998. He has been a Director and was Executive Vice President of the Company since the Company's January 1995 acquisition of Pulse Electronics, Inc. which he co-founded in 1975. From 1996 to February 1998 he was Executive Vice President -- Integrated Railway Systems. Mr. Fernandez is a director of PMI, Inc., a private corporation.

JOHN M. MEISTER has been Vice President and General Manager of the Company's Passenger Transit Unit since the 1990 Acquisition. In 1997, he was appointed to the newly created position of Executive Vice President and General Manager, Transit Products Group. From 1985 until 1990 he was General Manager of the passenger transit business unit for the Railway Products Group of American Standard.

TIMOTHY J. LOGAN has been Vice President, International since August 1996. Previously, from 1987 until August 1996, Mr. Logan was Vice President, International Operations for Ajax Magnethermic Corporation and from 1983 until 1987 he was President of Ajax Magnethermic Canada, Ltd.

GEORGE A. SOCHER has been Vice President and Corporate Controller of the Company since July 1995. From 1994 until June 1995, Mr. Socher was Corporate Controller and Chief Accounting Officer of Sulcus Computer Corp. From 1988 until 1994 he was Corporate Controller of Stuart Medical Inc.

KEVIN P. CONNER has been Vice President of Human Resources of the Company since the 1990 Acquisition. From 1986 until 1990, Mr. Conner was Vice President of Human Resources of the Railway Products Group of American Standard.

ALVARO GARCIA-TUNON has been Vice President and Treasurer of the Company since August 1995. From 1990 until August 1995 Mr. Garcia-Tunon was Vice President of Business Development of Pulse Electronics, Inc.

The executive officers are elected annually by the Board of Directors of the Company.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company is listed on the New York Stock Exchange. As of February 24, 1999, there were 33,937,528 shares of Common Stock outstanding held by 335 holders of record. The high and low sales price of the shares and dividends paid per share were as follows:

QUARTER	HIGH	LOW	DIVIDEND
-----			
1998			
Fourth	\$24.8125	\$19.250	\$.01
Third	26.7500	17.125	.01
Second	29.8125	24.000	.01
First	29.8125	23.000	.01
-----			
1997			
Fourth	\$ 27.875	\$21.875	\$.01
Third	23.125	17.875	.01
Second	20.000	12.750	.01
First	14.250	12.250	.01
-----			

The Company's Credit Agreement restricts the ability to make dividend payments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 5 to the "Notes to Consolidated Financial Statements."

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected consolidated financial information of the Company and has been derived from financial statements audited by Arthur Andersen LLP, independent public accountants. This financial information should be read in conjunction with, and is qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company and the Notes thereto included elsewhere in this Form 10-K.

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	YEAR ENDED DECEMBER 31				
	1998	1997	1996	1995	1994
<b>INCOME STATEMENT DATA</b>					
Net sales.....	\$670,909	\$564,441	\$453,512	\$ 424,959	\$347,469
Cost of sales.....	451,730	378,323	300,163	278,901	229,544
Gross profit.....	219,179	186,118	153,349	146,058	117,925
Operating expenses.....	114,513	96,143	73,631	56,756	44,287
Income from operations.....	104,666	89,975	79,718	89,302	73,638
Interest expense and other, net.....	32,136	29,385	26,070	30,793	11,184
Income before taxes and extraordinary item.....	72,530	60,590	53,648	58,509	62,454
Income taxes.....	27,561	23,327	20,923	23,402	25,613
Income before extraordinary item.....	44,969	37,263	32,725	35,107	36,841
(Loss) on early extinguishment of debt....	(3,315)			(1,382)	
Net income.....	\$ 41,654	\$ 37,263	\$ 32,725	\$ 33,725	\$ 36,841
<b>DILUTED EARNINGS PER COMMON SHARE</b>					
Income before extraordinary item.....	\$ 1.75	\$ 1.42	\$ 1.15	\$ 1.32	\$ .92
Loss on early extinguishment of debt.....	(.13)			(.05)	
Net income.....	\$ 1.62	\$ 1.42	\$ 1.15	\$ 1.27	\$ .92
Cash dividends per share.....	\$ .04	\$ .04	\$ .04	\$ .01	--
Weighted average diluted shares outstanding.....	25,708	26,173	28,473	26,639	40,000

	AS OF DECEMBER 31				
	1998	1997	1996	1995	1994
<b>BALANCE SHEET DATA</b>					
Working capital.....	\$ 95,411	\$ 48,719	\$ 48,176	\$ 36,674	\$ 46,640
Property, plant and equipment, net.....	124,981	108,367	95,844	72,758	67,346
Total assets.....	596,184	410,879	363,236	263,407	187,728
Total debt.....	467,817	364,934	341,690	305,935	78,060
Shareholders' equity (deficit).....	(33,853)	(79,263)	(76,195)	(108,698)	46,797

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Westinghouse Air Brake Company was formed in 1990 through the acquisition of the Railway Products Group of American Standard Inc. The Company is North America's largest manufacturer of value-added equipment for locomotives, railway freight cars and passenger transit vehicles. The Company's primary manufacturing operations are in the United States and Canada and revenues have historically been predominantly from North America. In recent years, the proportion of international sales has increased significantly, in line with the Company's strategy to expand its business outside North America.

The Company's customer base consists of freight transportation companies, locomotive and freight car original equipment manufacturers, transit car builders and public transit systems.

The Company's business is comprised of three principal business segments: Railroad, Transit and Molded Products. See Note 17 to the "Notes to Consolidated Financial Statements".

The Company's strategy for growth is focused on using technological advancements to develop new products, expanding the range of aftermarket products and services and penetrating international markets. In addition, management continually evaluates acquisition opportunities that meet the Company's criteria and complement the Company's operating strategies and product offerings.

The Company has completed a number of strategic acquisitions since 1995. The following is a summary of these acquisitions:

- In October 1998, the Company purchased the railroad electronics business from Rockwell Collins, Inc. ("Rockwell") for a total purchase price of approximately \$80.0 million.
- In October 1998, the Company purchased the air brake repair business of Comet Industries, Inc. ("Comet") for a total purchase price of approximately \$13.2 million.
- In July 1998, the Company acquired the assets of Lokring Corporation ("Lokring") for a total purchase price of \$5.1 million. The acquired products include a fitting that connects non-welded joints.
- In April 1998, the Company completed the acquisition of the transit coupler product line of Hadady Corporation ("Hadady") for a total purchase price of \$4.6 million, which included amounts for designs and drawings.
- In April 1998, the Company acquired the railway repair business in the United Kingdom of RFS(E) Limited ("RFS(E)") for a total purchase price of approximately \$10.0 million.
- In October 1997, the Company purchased the rail products business and related assets of Sloan Valve Company ("Sloan") for \$2.5 million. The acquired products included slack adjusters, angle cocks and retainer valves.
- During July 1997, the Company acquired 100% of the stock of HP s.r.l. ("HP") for a total purchase price of \$5.8 million, which included the assumption of \$2.3 million in debt. HP s.r.l. is a leading supplier of door controls for transit rail cars and buses in the Italian market.
- In May 1997, the Company purchased Stone Safety Services Corporation and Stone U.K. Limited (collectively, "Stone"). Stone is one of the world's leading suppliers of air conditioning equipment for the transit industry with an established product base in North America, Europe and the Far East. In connection with this acquisition, in June 1997, the Company acquired the heavy rail air conditioning business of Thermo King Corporation ("Thermo King"). The aggregate purchase price for these acquisitions was approximately \$7.7 million.
- In September 1996, the Company acquired the Vapor Group ("Vapor"), a passenger transit door manufacturer in the United States and Europe, for \$63.9 million.
- In January 1996, the Company acquired Futuris Industrial Products Pty. Ltd. ("Futuris") an Australian friction products manufacturer, for approximately \$15.0 million.
- In January 1995, the Company acquired Pulse Electronics ("Pulse"), a privately-held manufacturer of end-of-train monitors and other electronic products for the railway industry for \$54.9 million.

Also in March 1997, an agreement was reached with one of the Company's major shareholders, Scandina-

vian Incentive Holding B.V. ("SIH"), whereby the Company repurchased 4 million shares of its common stock held by SIH for \$44 million, or \$11 per share. In conjunction with this transaction, SIH also sold its remaining 6 million shares of the Company's Common Stock to Vestar Equity Partners, L.P. ("Vestar"), Charlesbank Capital Partners, LLC, f/k/a Harvard Private Capital Holdings, Inc. ("Charles"), American Industrial Partners Capital Fund II, L.P. ("AIP") and certain members of senior management.

FISCAL YEAR 1998 COMPARED TO  
FISCAL YEAR 1997

Summary Results of Operations

DOLLARS IN MILLIONS, EXCEPT PER SHARE	YEAR ENDED DECEMBER 31		PERCENT CHANGE
	1998	1997	
Income before extraordinary item	\$ 45.0	\$ 37.3	20.6
Extraordinary item, net of tax	3.3	--	nm
Net income	41.7	37.3	11.8
Diluted earnings per share, before extraordinary item	1.75	1.42	20.7
Diluted earnings per share	1.62	1.42	14.1
Net sales	670.9	564.4	18.9
Income from operations	104.7	90.0	16.3
Earnings before interest, taxes, depreciation and amortization	129.0	114.9	12.3
Gross profit margin	32.7%	33.0%	nm

nm-not meaningful

Income before extraordinary item for 1998 increased \$7.7 million, or 20.6%, compared with the same period a year ago. Because of the \$3.3 million extraordinary charge to write-off certain previously capitalized debt issuance costs, net income increased only \$4.4 million compared to 1997. Diluted earnings per share before extraordinary item increased 20.7% to \$1.75 and diluted earnings per share increased 14.1% to \$1.62. Income from operations and earnings before interest, taxes, depreciation and amortization increased in the comparison primarily due to revenue growth and related gross profit.

A number of events have occurred over the comparative period that impacted the Company's results of operations and financial condition including:

- The Company completed several acquisitions that complement and enhance the mix of existing products and markets. Acquisitions completed during this timeframe were Rockwell, Comet, Lokring, Hadady, RFS(E), Sloan, H.P., Stone and Thermo King. Aggregate incremental revenues from all of the above acquisitions was \$63.7 million in 1998.
- In June 1998, the Company refinanced its credit agreement and subsequently amended the agreement in October 1998. This resulted in a write off of previously deferred financing costs of approximately \$3.3 million, net of tax, (\$.13 per share) which has been reported as an extraordinary item.
- In March 1997, the Company repurchased 4 million shares of its common stock held by a major shareholder for \$44 million plus \$2 million in related fees.

Net Sales

The following table sets forth the Company's net sales by business segment:

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31	
	1998	1997
Railroad Group	\$388,797	\$310,295
Transit Group	211,801	189,541
Molded Products Group	70,311	64,605
Net sales	\$670,909	\$564,441

Net sales for 1998 increased \$106.5 million, or 18.9%, to \$670.9 million. This increase was primarily attributable to incremental revenue in 1998 of approximately \$43.2 million from the acquisitions referred to above within the

Railroad Group. Increased sales volumes in the Railroad Group also reflect a strong OEM market for freight cars, with approximately 76,000 freight cars delivered in 1998 compared to 50,000 in 1997. These increases were partially offset by lower sales in the electronics portion of the Railroad Group, where in the prior year period, product sales benefited from a federal mandate that certain monitoring equipment be installed in trains by July 1997. Incremental revenue in 1998 for the acquisitions referred to above, of approximately \$20.5 million, was the primary reason for the increase in revenues in the Transit Group. The

Company anticipates new freight car deliveries in 1999 to be lower than that of 1998; however, railroad OEM and aftermarket sales are expected to be reasonably strong for the foreseeable future.

#### Gross Profit

Gross profit increased 17.8% to \$219.2 million in 1998 compared to \$186.1 million in 1997. Gross margin, as a percentage of sales, was 32.7% compared to 33.0%. Gross margin is dependent on a number of factors including sales volume and product mix. Incremental revenue from recent acquisitions at lower margins as compared to the Company's historical results, was the primary reason for the lower margins in the period-to-period comparison. These lower margins were partially offset by favorable margins on increased sales in the Railroad and Molded Product Groups.

#### Operating Expenses

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31		PERCENT CHANGE
	1998	1997	
Selling and marketing	\$ 30,711	\$25,364	21.1
General and administrative	45,337	38,153	18.8
Engineering	30,436	24,386	24.8
Amortization	8,029	8,240	(2.6)
<b>Total</b>	<b>\$114,513</b>	<b>\$96,143</b>	<b>19.1</b>

Total operating expenses as a percentage of net sales were 17.1% in 1998 compared with 17.0% in 1997. Total operating expenses increased in 1998 by \$18.4 million in the period-to-period comparison. Incremental expenses from acquired businesses totaled \$10.2 million or 55% of the increase. In addition, higher operating expenses reflect costs associated with computer system upgrades which includes Year 2000 compliant computer software of approximately \$3.5 million and additional engineering efforts associated with new product development. The Company anticipates cost savings in 1999 from the consolidation of several facilities and a related net reduction of employees as recently acquired businesses are integrated into the Company's core operations.

#### Income from Operations

Operating income totaled \$104.7 million in 1998 compared with \$90.0 million in 1997. Higher operating income results from higher sales volume and related higher gross profit. As a percentage of revenue, operating income was 15.6% and is substantially consistent with that of the prior year. Favorable volume changes in the Railroad and the Molded Products Groups were partially offset by lower profits, as a percentage of sales, in the Transit Group.

#### Interest and Other Expense

Interest expense increased \$1.5 million to \$31.2 million during 1998, primarily due to financing costs of recent acquisitions, partially offset by debt repayments.

Other expense for 1998 totaled \$0.9 million primarily reflecting the effects of changes in foreign currency exchange rates associated with a loan to a wholly owned subsidiary of the Company. The effect of subsequent changes in exchange rates will be reflected in future periods.

#### Income Taxes

The provision for income taxes increased \$4.2 million to \$27.6 million in 1998 compared with 1997. The effective tax rate declined to 38% in 1998 from 38.5% a year ago, resulting from additional benefits through our Foreign Sales Corporation and lower overall effective state tax rates.

FISCAL YEAR 1997 COMPARED TO  
FISCAL YEAR 1996

## Summary Results of Operations

DOLLARS IN MILLIONS, EXCEPT PER SHARE	YEAR ENDED DECEMBER 31		PERCENT CHANGE
	1997	1996	
Net income	\$ 37.3	\$ 32.7	14.1
Diluted earnings per share	1.42	1.15	23.5
Net sales	564.4	453.5	24.5
Income from operations	90.0	79.7	12.9
Earnings before interest, taxes, depreciation and amortization	114.9	102.0	12.6
Gross profit margin	33.0%	33.8%	nm

nm -- not meaningful

Net income for 1997 increased \$4.6 million, or 14.1% compared with 1996. Diluted earnings per share increased 23.5% to \$1.42 per diluted share. The higher earnings base reflects the benefits associated with acquisitions and new products and the 4 million share repurchase. Income from operations and earnings before interest, taxes, depreciation and amortization increased in the comparison primarily due to revenue growth and related gross profit.

## Net Sales

The following table sets forth the Company's net sales by business segment:

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31	
	1997	1996
Railway Group	\$310,295	\$294,021
Transit Group	189,541	100,902
Molded Products Group	58,589	64,605
Net sales	\$564,441	\$453,512

Net sales for the year ended December 31, 1997 increased \$110.9 million, or 24.5%, to \$564.4 million. The Transit Group acquisitions of Vapor, Stone, Thermo King and HP contributed \$85.5 million of the increase. In addition, increased volumes in all groups favorably affected the comparison.

## Gross Profit

Gross profit increased 21.4% to \$186.1 million in 1997 compared to \$153.3 million in 1996. Gross margin, as a percentage of sales, was 33.0% in 1997 and 33.8% in 1996. The effect of lower margins of the recently acquired businesses was the primary factor for the change.

## Operating Expenses

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31		PERCENT CHANGE
	1997	1996	
Selling and marketing	\$25,364	\$18,643	36.1
General and administrative	38,153	28,890	32.1
Engineering	24,386	18,244	33.7
Amortization	8,240	7,854	4.9
Total	\$96,143	\$73,631	30.6

Total operating expenses increased \$22.5 million in the year-to-year comparison primarily reflecting the effect of acquisitions completed in 1997 and 1996. Incremental expenses in 1997 from acquired businesses totaled \$15.3 million. In addition, higher operating expenses reflect costs associated with certain strategic initiatives including expanded international marketing activities and additional engineering efforts associated with new product development.

#### Income from Operations

Operating income totaled \$90.0 million in 1997 compared with \$79.7 million a year ago. Higher operating income reflects higher sales volume and related gross profit.

#### Interest Expense

Interest expense increased \$3.6 million to \$29.7 million during 1997, primarily due to funding costs associated with repurchases of common stock and acquisitions, partially offset by debt repayments.

#### Income Taxes

The provision for income taxes increased \$2.4 million to \$23.3 million in 1997 compared with \$20.9 million in 1996. The effective tax rate declined to 38.5% in 1997 from 39.0% in 1996, due to the establishment of a Foreign Sales Corporation in the latter part of 1996.

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity is provided primarily by operating cash flow and borrowings under the Company's credit facilities. The Company's cash flow from operating activities was approximately \$42 million, \$67 million and \$59 million in 1998, 1997 and 1996, respectively. The decrease in operating cash flow from 1997 to 1998 is primarily related to an increase in working capital due to higher accounts receivables and increased inventory levels which are associated with increased sales growth and acquired businesses which have large working capital requirements. These additional working capital requirements have resulted in increased borrowings under the Company's credit facilities. The Company's acquisitions of businesses have also resulted in increased borrowing.

Based on cash flow provided by operations during 1998, forecasted 1999 results and credit available under the credit agreement, the Company believes it will be able to make 1999 planned capital expenditures and required debt payments.

In 1998, the Company completed the Rockwell, Comet, Lokring, RFS(E) and Hadady acquisitions for an aggregate purchase price of \$112.9 million consisting of debt and cash. In 1997, the Company completed the Stone, Thermo King, Sloan and HP acquisitions for an aggregate purchase price of \$16.0 million, including \$2.3 million of assumed debt. In 1996, the Company acquired Vapor and Futuris for an aggregate purchase price of \$78.9 million. These transactions utilized borrowings for the purchase price. Also, in 1995, the Company acquired Pulse for \$54.9 million, consisting of \$20 million in bank borrowings, a \$17.0 million note payable and the Company's Common Stock valued at \$17.9 million at the time of the acquisition.

In March 1997, SIH sold its 10 million shares of the Company's Common Stock. The Company purchased 4 million shares at \$11 per share for a total of \$44 million (plus \$2 million in related fees), and investors consisting of Vestar, Charles, AIP and certain members of the Company's management acquired the remaining 6 million shares at the same price. The Company financed the 4 million share repurchase through borrowings under its credit facility.

Gross capital expenditures were \$29.0 million, \$29.6 million and \$13.2 million in 1998, 1997 and 1996, respectively. The majority of capital expenditures reflect spending for replacement equipment as well as increased capacity and efficiency. The Company expects capital expenditures in 1999 to approximate \$25 to \$30 million.

The following table sets forth the Company's outstanding indebtedness:

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31	
	1998	1997
-----		
Credit Agreement		
Revolving credit	\$105,555	\$100,880
Term loan	202,500	145,500
9 3/8% Senior notes due		
June 5, 2005	100,000	100,000
Unsecured credit		
facility	30,000	
Pulse note	16,990	16,990
Comet notes	10,200	
Other	2,572	1,564
	-----	-----
Total	467,817	364,934
Less-current		
portion	30,579	32,600
	-----	-----
Long-term portion	\$437,238	\$332,334
-----		

## Credit Agreement

In June 1998, the Company refinanced its credit facility with a consortium of commercial banks and amended it in October 1998 in connection with the Rockwell acquisition (as amended, the "Credit Agreement"). The Credit Agreement provides for an aggregate credit facility of \$350 million, consisting of up to \$170 million of June 1998 term loans, up to \$40 million of September 1998 term loans, and up to \$140 million of revolving loans. In addition, the Credit Agreement provides for swingline loans of up to an aggregate amount of \$5 million, and for the issuance of letters of credit in an aggregate face amount of up to \$50 million. Swingline loans and the issuance of letters of credit will reduce the amount of revolving loans which may be incurred under the revolving credit facility.

At December 31, 1998, the Company had available borrowing capacity, net of letters of credit, of approximately \$12 million. The Company repaid a portion of its borrowings under the Credit Agreement in January 1999 with proceeds of the offering of \$75 million of 9 3/8 Senior Notes, as further described below, resulting in increased borrowing capacity of \$47 million.

Credit Agreement borrowings bear variable interest rates indexed to common indexes such as LIBOR. The weighted-average contractual interest rate on Credit Agreement borrowings was 6.71% on



December 31, 1998. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. On December 31 1998, the notional value of interest rate swaps outstanding totaled \$50 million and effectively changed the Company's interest rate from a variable rate to a fixed rate of 7.09%. The interest rate swap agreements mature in 2000 and 2001.

Principal repayments of term loan borrowings are due in semi-annual installments until maturity in December 2003. See Note 5 to "Notes to Consolidated Financial Statements."

The Credit Agreement limits the Company with respect to declaring or making cash dividend payments and prohibits the Company from declaring or making other distributions whether in cash, property, securities or a combination thereof, with respect to any shares of the Company's capital stock subject to certain exceptions, including an exception pursuant to which the Company will be permitted to pay cash dividends on its Common Stock in any fiscal year in an aggregate amount up to \$15 million minus the aggregate amount of prepayments of the Pulse note during such fiscal year so long as no default in the payment of interest or fees has occurred thereunder. The Credit Agreement contains various other covenants and restrictions including, without limitation, the following: a limitation on the incurrence of additional indebtedness; a limitation on mergers, consolidations and sales of assets and acquisitions (other than mergers and consolidations with certain subsidiaries, sales of assets in the ordinary course of business, and acquisitions for which the consideration paid by the Company does not exceed \$50 million individually or \$150 million in the aggregate); a limitation on liens; a limitation on sale and leasebacks; a limitation on investments, loans and advances; a limitation on certain debt payments; a limitation on capital expenditures; a minimum interest expense coverage ratio; and a maximum leverage ratio. All debt incurred under the Credit Agreement is secured by substantially all of the assets of the Company and its domestic subsidiaries and is guaranteed by the Company's domestic subsidiaries.

The Credit Agreement contains customary events of default, including payment defaults, failure of representations to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and "change of control" of the Company.

#### 9 3/8% Senior Notes Due June 2005

In June 1995 the Company issued \$100 million of 9 3/8% Senior Notes due June 2005 (the "Existing Notes"). In January 1999, the Company issued an additional \$75 million of 9 3/8% Senior Notes due June 2005 (the "Additional Notes"; the Existing Notes and the Additional Notes are, collectively, the "Notes"). See "Subsequent Event" below.

The terms of the Existing Notes and the Additional Notes are substantially the same, and the Existing Notes and the Additional Notes were issued pursuant to indentures that are substantially the same. The Notes bear interest at the rate of 9 3/8% and mature in June 2005. The net proceeds of the Existing Notes were used to repay term loans outstanding under the then existing credit agreement. The net proceeds of the Additional Notes were used to repay the unsecured credit facility and to reduce revolving credit borrowings.

The Notes are senior unsecured obligations of the Company and rank pari passu in right of payment with all existing and future indebtedness under (i) capitalized lease obligations, (ii) the Credit Agreement, (iii) indebtedness of the Company for money borrowed and (iv) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which the Company is responsible or liable unless, in the case of clause (iii) or (iv), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are subordinate in right of payment to the Notes.

The indentures pursuant to which the Notes were issued contain certain restrictive covenants which, among other things, limit the ability of the Company and certain of its subsidiaries to incur indebtedness, pay dividends on and redeem capital stock, create restrictions on investments in unrestricted subsidiaries, make distributions from certain subsidiaries, use proceeds from the sale of assets and subsidiary stock, enter into transactions with affiliates, create liens and enter into sale/leaseback transactions. The Company's indenture also restricts, subject to certain exceptions, the Company's ability to consolidate and merge with, or to transfer all or substantially all of its assets to, another person.

## Unsecured Credit Facility

In October 1998, the Company obtained a \$30 million unsecured credit facility from a group of commercial banks for the purpose of financing the Rockwell acquisition. At December 31, 1998, the interest rate on the note was 9.75% per annum. In January 1999, this facility was repaid with proceeds of the Additional Note offering.

## Pulse Note

As partial payment for the Pulse acquisition, the Company issued a \$17.0 million note due January 31, 2004. Interest is payable semiannually and accrues at 9.5% until February 1, 2001; and from February 1, 2001 until January 31, 2004, interest will accrue at the prime rate charged by Chase Manhattan Bank on December 31, 2000 plus 1% (with a maximum adjustment of 2%).

## Comet Notes

In connection with the Comet acquisition, the Company issued notes totaling \$12.2 million, of which unsecured notes totaling \$6.2 million were delivered by the Company and a note in the amount of \$6 million was delivered by a subsidiary of the Company and secured by the acquired assets. The notes bore interest at the rate of 10% per annum and were scheduled to mature on October 8, 1999. These notes were repaid in January 1999. See "Subsequent Event" below.

## ESOP

In connection with the establishment of the ESOP in January 1995, the Company made a \$140 million loan to the ESOP (the "ESOP Loan"), which was used to purchase 9,336,000 shares of the Company's outstanding common stock. The ESOP Loan had an original term of 50 years, with annual payments of principal and interest of approximately \$12 million. The ESOP Loan bears interest at 8.5% per annum. The ESOP will repay the ESOP Loan using contributions from the Company. The Company is obligated to contribute amounts sufficient to repay the ESOP Loan. The net effect of the ESOP is that the Company's Common Stock is allocated to employees in lieu of a retirement plan that was previously a cash-based defined benefit plan and, accordingly, results in reduced annual cash outlays by an estimated \$3 to \$4 million.

## Subsequent Event

In January 1999, the Company issued the Additional Notes at a premium resulting in an effective rate of 8.5%. As a result of the issuance and payoff of the unsecured credit facility, the Company will write off previously capitalized debt issuance costs of approximately \$.02 per diluted share in the first quarter of 1999.

Management believes, based upon current levels of operations and forecasted earnings, that cash flow from operations, together with borrowings under the Credit Agreement, will be adequate to make payments of principal and interest on debt, including the Notes, to make required contributions to the ESOP, to permit anticipated capital expenditures, and to fund working capital requirements and other cash needs for the foreseeable future, including 1999. The issuance of the Additional Notes increased the Company's liquidity by reducing its outstanding revolving credit borrowings and thereby increasing its available borrowing capacity.

Nevertheless, the Company will remain leveraged to a significant extent and its debt service obligations will continue to be substantial. The debt of the Company requires the dedication of a substantial portion of future cash flows to the payment of principal and interest on indebtedness, thereby reducing funds available for capital expenditures and future business opportunities that the Company believes are available. Cash flow and liquidity will be sufficient to meet its debt service requirements. If the Company's sources of funds were to fail to satisfy the Company's cash requirements, the Company may need to refinance its existing debt or obtain additional financing. There is no assurance that such new financing alternatives would be available, and, in any case, such new financing, if available, would be expected to be more costly and burdensome than the debt agreements currently in place. The Company intends in 1999 to reduce its indebtedness through generating operating income and by reducing working capital requirements and other measures.

## EFFECTS OF YEAR 2000

The Company has information system improvement initiatives in process that include both new computer hardware and software applications. The new system is substantially operational and is year 2000 compliant. The estimated cost of the project is expected to be in the \$8 to \$10 million range with the majority of costs (approximately \$8 million)

previously incurred. The majority of the expenditures incurred for hardware and purchased software related to this project have been capitalized and are amortized over their estimated useful lives. Other costs, such as training and advisory consulting, are expensed as incurred. These expenditures are not expected to have a significant impact on the Company's future results of operations or financial condition.

The Company has identified other equipment it uses in its operations that have non-information system characteristics and have embedded technology components, such as those items with internal clocks. The Company will need to replace this type of equipment but does not believe a possible year 2000 failure will have a significant impact on the Company's operations. The estimated cost of replacement equipment is not considered significant.

The Company has received written assurances from some of its suppliers and customers and other providers acknowledging year 2000 issues and stating their present intention to be compliant; however, not all customers, vendors and providers have provided such assurances. The Company will evaluate on an ongoing basis whether it is necessary and practical to establish contingency plans with respect to year 2000 issues. However, if large scale systems failures occur, it could have a significant adverse effect on the Company's financial condition, future results of operations and liquidity.

The Company's products are generally sold with a limited warranty for defects. The Company has reviewed its products currently in use by its customers or being sold and does not believe that there will be material increases in warranty or liability claims arising out of year 2000 non-compliance. However, a material increase in such claims could have a material adverse effect on the Company's financial condition, future results of operations and liquidity.

#### EFFECTS OF INFLATION; SEASONALITY

General price inflation has not had a material impact on the Company's results of operations. Some of the Company's labor contracts contain negotiated salary and benefit increases and others contain cost of living adjustment clauses, which would cause the Company's cost automatically to increase if inflation were to become significant. The Company's business is not seasonal, although the third quarter results generally tend to be slightly lower than other quarters, reflecting vacation and down time at its major customers during this period.

#### CONVERSION TO THE EURO CURRENCY

On January 1, 1999, certain members of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (the "Euro"). The Company conducts business in member countries. The transition period for the introduction of the Euro is from January 1, 1999 through June 30, 2002. The Company is assessing the issues involved with the introduction of the Euro; however, it does not expect conversion to the Euro to have a material impact on its operations or financial results.

#### FORWARD LOOKING STATEMENTS

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

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

- Interest rates;
- Demand for services in the freight and passenger rail industry;
- Consolidations in the rail industry;
- Demand for our products and services;
- Gains and losses in market share;
- Demand for freight cars, locomotives, passenger transit cars and buses;
- Industry demand for faster and more efficient braking equipment;
- Continued outsourcing by our customers;
- Governmental funding for some of our customers;
- Future regulation/deregulation of our customers and/or the rail industry;

- General economic conditions in the markets which we compete, including North America, South America, Europe and Australia;
- Successful introduction of new products;
- Successful integration of newly acquired companies;
- Year 2000 concerns;
- Labor relations;
- Completion of additional acquisitions; and
- Other factors.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

#### RECENT ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement establishes accounting and reporting standards requiring that every derivative instrument be measured at its fair value and the changes in fair value be recorded currently in earnings unless specific hedge accounting criteria are met. Statement No. 133 is effective for fiscal years beginning after June 15, 1999, and accordingly, the Company anticipates adopting this standard January 1, 2000. Management continues to evaluate the impact this standard will have on results of operations and financial condition.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**INTEREST RATE RISK** In the ordinary course of business, WABCO is exposed to risks that increases in interest rates may adversely affect funding costs associated with \$308 million of variable-rate debt (including the effects of interest rate swaps), which represents 66% of total long-term debt at December 31, 1998. Management has entered into pay-fixed, receive-variable interest rate swap contracts that partially mitigate the impact on variable-rate debt of interest rate increases (see Note 5 to the "Notes to Consolidated Financial Statements" included elsewhere in this report). At December 31, 1998, an instantaneous 100 basis point increase in interest rates would reduce the Company's earnings by \$2.2 million, assuming no additional intervention strategies by management.

In January 1999, the Company converted a portion of its variable-rate debt to fixed rate debt through the issuance of \$75 million Senior Notes. As of February 28, 1999, variable-rate debt represents 52% (including the effects of interest rate swaps) of total long-term debt.

**FOREIGN CURRENCY EXCHANGE RISK** The Company routinely enters into several types of financial instruments for the purpose of managing its exposure to foreign currency exchange rate fluctuations in countries in which the Company has significant operations. As of December 31, 1998, the Company had no significant instruments outstanding.

WABCO is also subject to certain risks associated with changes in foreign currency exchange rates to the extent its operations are conducted in currencies other than the U.S. dollar. At December 31, 1998, approximately 72% of WABCO's net sales are in the United States, 11% in Canada and 17% in other international locations, primarily Europe.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data are set forth in Item 14 of Part IV hereof.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### PART III

#### ITEMS 10 THROUGH 13.

In accordance with the provisions of General Instruction G to Form 10-K, the information required by Item 10 (Directors and Executive Officers of the Registrant), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management) and Item 13 (Certain Relationships and Related Transactions) is incorporated herein by reference to the Company's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 19, 1999. The definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 1998. Information relating to the executive officers of the Company is set forth in Part I.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The financial statements, financial statement schedules and exhibits listed below are filed as part of this annual report:

	PAGE
	-----
(a) (1) FINANCIAL STATEMENTS	
Report of Independent Public Accountants	25
Consolidated Balance Sheet as of December 31, 1998 and 1997	26
Consolidated Statement of Operations for the three years ended December 31, 1998, 1997 and 1996	27
Consolidated Statement of Cash Flows for the three years ended December 31, 1998, 1997 and 1996	28
Consolidated Statement of Shareholders' Equity for the three years ended December 31, 1998, 1997 and 1996	29
Notes to Consolidated Financial Statements	30
(2) FINANCIAL STATEMENT SCHEDULES	
Report of Independent Public Accountants	43
Schedule II -- Valuation and Qualifying Accounts	44
(b) REPORTS ON FORM 8-K	
None	

	FILING METHOD
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(c) EXHIBITS	
3.1 Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995	2
3.2 Amended and Restated By-Laws of the Company, effective March 31, 1997	5
4.1 Form of Indenture between the Company and The Bank of New York with respect to the public offering of \$100,000,000 of 9 3/8% Senior Notes due 2005	2
4.2 Form of Note (included in Exhibit 4.1)	
4.3 First Supplemental Indenture dated as of March 21, 1997 between the Company and The Bank of New York	6
4.4 Indenture dated as of January 12, 1999 by and between the Company and The Bank of New York with respect to the private offering of \$75,000,000 of 9 3/8% Senior Notes due 2005, Series B	1
4.5 Form of Note (included in Exhibit 4.4)	1
9 Second Amended WABCO Voting Trust/Disposition Agreement dated as of December 13, 1995 among the Management Investors (Schedules and Exhibits omitted)	3
10.1 Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust, effective January 31, 1995	2
10.2 ESOP Loan Agreement dated January 31, 1995 between Westinghouse Air Brake Company Employee Stock Ownership Trust ("ESOT") and the Company (Exhibits omitted)	2
10.3 Employee Stock Ownership Trust Agreement dated January 31, 1995 between the Company and U.S. Trust Company of California, N.A.	2
10.4 Pledge Agreement dated January 31, 1995 between ESOT and the Company	2

## FILING METHOD

	FILING METHOD
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10.5 Credit Agreement dated as of June 30, 1998, and Amended and Restated as of October 2, 1998 among the Company, various financial institutions, The Chase Manhattan Bank, Chase Manhattan Bank Delaware, and The Bank of New York (Schedules and Exhibits omitted)	1
10.6 Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the RAC Voting Trust ("Voting Trust"), Vestar Equity Partners, L.P., Charlesbank Capital Partners f/k/a Harvard Private Capital Holdings, Inc. ("Charles"), American Industrial Partners Capital Fund II, L.P. ("AIP") and the Company	6
10.7 Common Stock Registration Rights Agreement dated as of January 31, 1995 among the Company, Scandinavian Incentive Holding B.V. ("SIH"), Voting Trust, Vestar Capital, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc., the Pulse Shareholders and ESOT (Schedules and Exhibits omitted)	2
10.8 Indemnification Agreement dated January 31, 1995 between the Company and the Voting Trust trustees	2
10.9 Agreement of Sale and Purchase of the North American Operations of the Railway Products Group, an operating division of American Standard Inc., dated as of 1990 between Rail Acquisition Corp. and American Standard Inc. (only provisions on indemnification are reproduced)	2
10.10 Letter Agreement (undated) between the Company and American Standard Inc. on environmental costs and sharing	2
10.11 Purchase Agreement dated as of June 17, 1992 among the Company, Schuller International, Inc., Manville Corporation and European Overseas Corporation (only provisions on indemnification are reproduced)	2
10.12 Asset Purchase Agreement dated as of January 23, 1995 among the Company, Pulse Acquisition Corporation, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc. and the Pulse Shareholders (Schedules and Exhibits omitted)	2
10.13 License Agreement dated as of December 31, 1993 between SAB WABCO Holdings B.V. and the Company	2
10.14 Letter Agreement dated as of January 19, 1995 between the Company and Vestar Capital Partners, Inc.	2
10.15 Westinghouse Air Brake Company 1995 Stock Incentive Plan, as amended	1
10.16 Westinghouse Air Brake Company 1995 Non-Employee Directors' Fee and Stock Option Plan	1
10.17 Form of Employment Agreement between William E. Kassling and the Company	2
10.18 Letter Agreement dated as of January 1, 1995 between the Company and Vestar Capital Partners, Inc.	2
10.19 Form of Indemnification Agreement between the Company and Authorized Representatives	2
10.20 Share Purchase Agreement between Futuris Corporation Limited and the Company (Exhibits omitted)	2
10.21 Purchase Agreement dated as of September 19, 1996 by and among Mark IV Industries, Inc., Mark IV PLC, and W&P Holding Corp. (Exhibits and Schedules omitted) (Originally filed as Exhibit No. 2.01)	4
10.22 Purchase Agreement dated as of September 19, 1996 by and among Mark IV Industries Limited and Westinghouse Railway Holdings (Canada) Inc. (Exhibits and Schedules omitted) (Originally filed as Exhibit No. 2.02)	4

## FILING METHOD

	FILING METHOD
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10.23 Amendment No. 1 to Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the Voting Trust, Vestar, Charles, AIP and the Company	6
10.24 Common Stock Registration Rights Agreement dated as of March 5, 1997 among the Company, Charles, AIP and the Voting Trust	6
10.25 1998 Employee Stock Purchase Plan	1
10.26 Sale Agreement dated as of August 7, 1998 by and between Rockwell Collins, Inc. and the Company (Schedules and Exhibits omitted) (Originally filed as Exhibit No. 2.01)	7
10.27 Amendment No. 1 dated as of October 5, 1998 to Sale Agreement dated as of August 7, 1998 by and between Rockwell Collins, Inc. and the Company (Originally filed as Exhibit No. 2.02)	7
21 List of subsidiaries of the Company	1
23 Consent of Arthur Andersen LLP	1
27 Financial Data Schedule	1
99 Annual Report on Form 11-K for the year ended December 31, 1998 of the Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust	1

## FILING METHOD

1	Filed herewith
2	Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866)
3	Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1995
4	Filed as an exhibit to the Company's Current Report on Form 8-K, dated October 3, 1996
5	Filed as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-39159)
6	Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1997
7	Filed as an exhibit to the Company's Current Report on Form 8-K, dated October 5, 1998

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS OF  
WESTINGHOUSE AIR BRAKE COMPANY:

We have audited the accompanying consolidated balance sheet of Westinghouse Air Brake Company (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westinghouse Air Brake Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania  
February 17, 1999

WESTINGHOUSE AIR BRAKE COMPANY  
CONSOLIDATED BALANCE SHEET

DOLLARS IN THOUSANDS, EXCEPT PAR VALUE	DECEMBER 31	
	1998	1997
ASSETS		
CURRENT ASSETS		
Cash.....	\$ 3,323	\$ 836
Accounts receivable.....	132,901	91,438
Inventories.....	103,560	69,297
Deferred taxes.....	13,006	11,169
Other.....	10,171	7,759
	-----	
Total current assets.....	262,961	180,499
Property, plant and equipment.....	214,461	186,534
Accumulated depreciation.....	(89,480)	(78,167)
	-----	
Property, plant and equipment, net.....	124,981	108,367
OTHER ASSETS		
Prepaid pension costs.....	5,724	5,061
Goodwill.....	151,658	66,599
Other intangibles.....	46,021	42,466
Other noncurrent assets.....	4,839	7,887
	-----	
Total other assets.....	208,242	122,013
	-----	
Total Assets.....	\$ 596,184	\$ 410,879
	-----	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt.....	\$ 30,579	\$ 32,600
Accounts payable.....	62,974	37,582
Accrued income taxes.....	8,352	488
Customer deposits.....	20,426	21,210
Accrued compensation.....	12,769	13,080
Accrued warranty.....	12,657	12,851
Accrued interest.....	1,616	3,038
Other accrued liabilities.....	18,177	10,931
	-----	
Total current liabilities.....	167,550	131,780
Long-term debt.....	437,238	332,334
Reserve for postretirement benefits.....	16,238	14,860
Accrued pension costs.....	3,631	4,700
Deferred income taxes.....	3,463	5,561
Other long-term liabilities.....	1,917	907
	-----	
Total liabilities.....	630,037	490,142
SHAREHOLDERS' EQUITY		
Preferred stock, 1,000,000 shares authorized, no shares issued.....	--	--
Common stock, \$.01 par value; 100,000,000 shares authorized: 47,426,600 shares issued.....	474	474
Additional paid-in capital.....	107,720	105,522
Treasury stock, at cost, 13,532,092 and 13,743,924 shares... (187,654)	(187,654)	(190,657)
Unearned ESOP shares, at cost, 8,564,811 and 8,751,531 shares..... (128,472)	(128,472)	(131,273)
Retained earnings.....	182,291	141,617
Unamortized restricted stock award.....	(162)	--
Accumulated other comprehensive income (loss).....	(8,050)	(4,946)
	-----	
Total shareholders' equity.....	(33,853)	(79,263)
	-----	
Liabilities and Shareholders' Equity.....	\$ 596,184	\$ 410,879
	-----	

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY  
CONSOLIDATED STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31		
IN THOUSANDS, EXCEPT PER SHARE DATA	1998	1997	1996
Net sales.....	\$670,909	\$564,441	\$453,512
Cost of sales.....	451,730	378,323	300,163
Gross profit.....	219,179	186,118	153,349
Selling and marketing expenses.....	30,711	25,364	18,643
General and administrative expenses.....	45,337	38,153	28,890
Engineering expenses.....	30,436	24,386	18,244
Amortization expense.....	8,029	8,240	7,854
Total operating expenses.....	114,513	96,143	73,631
Income from operations.....	104,666	89,975	79,718
Other income and expenses			
Interest expense.....	31,217	29,729	26,152
Other expense (income), net.....	919	(344)	(82)
Income before income taxes and extraordinary item.....	72,530	60,590	53,648
Income taxes.....	27,561	23,327	20,923
Income before extraordinary item.....	44,969	37,263	32,725
Loss on early extinguishment of debt, net of tax.....	3,315	--	--
Net income.....	\$ 41,654	\$ 37,263	\$ 32,725
EARNINGS PER COMMON SHARE			
Basic			
Income before extraordinary item.....	\$ 1.79	\$ 1.45	\$ 1.15
Extraordinary item.....	(.13)	--	--
Net income.....	\$ 1.66	\$ 1.45	\$ 1.15
Diluted			
Income before extraordinary item.....	\$ 1.75	\$ 1.42	\$ 1.15
Extraordinary item.....	(.13)	--	--
Net income.....	\$ 1.62	\$ 1.42	\$ 1.15
Weighted Average Shares Outstanding			
Basic.....	25,081	25,693	28,473
Diluted.....	25,708	26,173	28,473

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY  
CONSOLIDATED STATEMENT OF CASH FLOWS

IN THOUSANDS	YEAR ENDED DECEMBER 31		
	1998	1997	1996
<hr/>			
<b>OPERATING ACTIVITIES</b>			
Net income.....	\$ 41,654	\$37,263	\$32,725
Adjustments to reconcile net income to cash provided by operations			
Extraordinary loss on extinguishment of debt.....	3,315		
Depreciation and amortization.....	25,208	24,624	22,249
Provision for ESOP contribution.....	4,472	3,229	2,870
Deferred income taxes.....	(3,935)	(3,506)	2,456
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable.....	(26,161)	(6,623)	(9,868)
Inventories.....	(16,957)	1,817	8,100
Accounts payable.....	20,385	5,900	(6,574)
Accrued income taxes.....	12,025	(1,349)	(411)
Accrued liabilities and customer deposits.....	(11,856)	5,522	9,740
Other assets and liabilities.....	(6,083)	97	(2,376)
Net cash provided by operating activities.....	42,067	66,974	58,911
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment, net.....	(28,957)	(29,196)	(12,855)
Acquisitions of businesses, net of cash acquired.....	(112,514)	(13,492)	(78,890)
Net cash used for investing activities.....	(141,471)	(42,688)	(91,745)
<b>FINANCING ACTIVITIES</b>			
Proceeds from term debt obligations.....	64,500		65,000
Repayments of term debt.....	(7,500)	(18,200)	(26,300)
Net proceeds from (repayments of) revolving credit arrangements.....	4,675	39,880	(2,935)
Proceeds from other borrowings.....	43,208		
Repayments of other borrowings.....	(2,000)	(555)	(10)
Debt issuance fees.....	(2,251)	(2,068)	(492)
Purchase of treasury stock.....		(44,000)	(1,629)
Cash dividends.....	(980)	(1,009)	(1,127)
Proceeds from exercise of stock options and employee stock purchases.....	2,546	3,513	
Net cash provided by (used for) financing activities.....	102,198	(22,439)	32,507
Effect of changes in currency exchange rates.....	(307)	(1,629)	735
Increase in cash.....	2,487	218	408
Cash, beginning of year.....	836	618	210
Cash, end of year.....	\$ 3,323	\$ 836	\$ 618
<hr/>			
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>			
Interest paid during the year.....	\$ 32,639	\$30,223	\$25,624
Income taxes paid during the year.....	19,471	28,182	20,452
<hr/>			

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

In thousands, except per share	COMPREHENSIVE INCOME	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	UNALLOCATED ESOP SHARES	RETAINED EARNINGS	UNAMORTIZED RESTRICTED STOCK AWARD	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
BALANCE, DECEMBER 31, 1995.....		\$474	\$104,776	\$(147,702)	\$(137,239)	\$ 73,765	\$ --	\$(2,772)
Cash dividends (\$.04 per share).....						(1,127)		
Purchase of treasury stock.....				(1,629)				
Allocation of ESOP shares.....			(455)		3,325			
Net income.....	\$32,725					32,725		
Translation adjustment....	(336)							(336)
	<u>\$32,389</u>							
BALANCE, DECEMBER 31, 1996.....		474	104,321	(149,331)	(133,914)	105,363	--	(3,108)
Cash dividends (\$.04 per share).....						(1,009)		
Purchase of treasury stock.....				(44,000)				
Stock issued under option, benefit and other plans.....			839	2,674				
Allocation of ESOP shares.....			362		2,641			
Net income.....	\$37,263					37,263		
Translation adjustment....	(1,838)							(1,838)
	<u>\$35,425</u>							
BALANCE, DECEMBER 31, 1997.....		474	105,522	(190,657)	(131,273)	141,617	--	(4,946)
Cash dividends (\$.04 per share).....						(980)		
Stock issued under option, benefit and other plans.....			1,162	3,003			(162)	
Allocation of ESOP shares.....			1,036		2,801			
Net income.....	\$41,654					41,654		
Translation adjustment....	(3,104)							(3,104)
	<u>\$38,550</u>							
BALANCE, DECEMBER 31, 1998.....		\$474	\$107,720	\$(187,654)	\$(128,472)	\$182,291	\$(162)	\$(8,050)

The accompanying notes are an integral part of the financial statements.

WESTINGHOUSE AIR BRAKE COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BUSINESS

Westinghouse Air Brake Company (the Company) is North America's largest manufacturer of value-added equipment for locomotives, railway freight cars and passenger transit vehicles. The Company's products, which are sold to both the original equipment manufacturer market and the aftermarket, are intended to enhance safety, improve productivity and reduce maintenance costs for its customers. The Company's products include electronic controls and monitors, air brakes, couplers, door controls, draft gears and brake shoes. The Company's primary manufacturing operations are in the United States and Canada, and the Company's revenues have been primarily from North America. The Company's customer base consists of railroad transportation companies, locomotive and freight car original equipment manufacturers, railroads and transit car builders and public transit systems.

A portion of the Company's Railroad Group's operations and revenue base is generally dependent on the capital replacement cycles for locomotives and freight cars of the large North American-based railroad companies. The Company's passenger transit operations are dependent on the budgeting and expenditure appropriation process of federal, state and local governmental units for mass transit needs established by public policy.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**PRINCIPLES OF CONSOLIDATION** The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. Such statements have been prepared in accordance with generally accepted accounting principles. All intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified, where necessary, to conform to the current year presentation.

**USE OF ESTIMATES** The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from the estimates.

**INVENTORIES** Inventories are stated at the lower of cost or market. Cost is determined under the first-in, first-out (FIFO) method. Inventory costs include material, labor and overhead. The components of inventory, net of reserves, were:

DOLLARS IN THOUSANDS	DECEMBER 31	
	1998	1997
Raw materials	\$ 47,853	\$27,395
Work-in-process	29,965	26,640
Finished goods	25,742	15,262
Total inventory	\$103,560	\$69,297

**PROPERTY, PLANT AND EQUIPMENT** Property, plant and equipment additions are stated at cost. Expenditures for renewals and betterments are capitalized. Expenditures for ordinary maintenance and repairs are expensed as incurred. The Company provides for book depreciation principally on the straight-line method over the following estimated useful lives of plant and equipment.

	YEARS
Land improvements	10 to 20
Buildings	20 to 40
Machinery and equipment	4 to 15

Accelerated depreciation methods are utilized for income tax purposes.

**INTANGIBLE ASSETS** Goodwill is amortized on a straight-line basis over 40 years. Other intangibles are amortized on a straight-line basis over their estimated economic lives. Goodwill and other intangible assets, including patents and tradenames, are periodically reviewed for impairment based on an assessment of future operations (see Note 4).

**REVENUE RECOGNITION** Revenue is recognized when products have been shipped to the respective customers and the price for the product has been determined. The percentage of completion method of accounting for revenues on long-term sales contracts is applied on a relatively small amount of contracts when appropriate. Sales returns are infrequent and not material in relation to the Company's net sales.

**STOCK-BASED COMPENSATION** The Company accounts for stock-based compensation, including stock options and employee stock purchases, under APB Opinion No. 25,



Employees." See Note 11 for related pro forma disclosures.

**RESEARCH AND DEVELOPMENT** Research and development costs are charged to expense as incurred. Such costs totaled \$30.4 million, \$24.4 million and \$18.2 million in 1998, 1997 and 1996, respectively.

**WARRANTY COSTS** Warranty costs are accrued based on management's estimates of repair or upgrade costs per unit and historical experience. In recent years, the Company has introduced several new products. The Company does not have the same level of historical warranty experience for these new products as it does for its continuing products. Therefore, warranty reserves have been established for these new products based upon management's estimates. Actual future results may vary from such estimates. Warranty expense was \$6.2 million, \$9.9 million and \$5.5 million for 1998, 1997 and 1996, respectively. Warranty reserves were \$12.7 million and \$12.9 million at December 31, 1998 and 1997, respectively.

**FINANCIAL DERIVATIVES** The Company periodically enters into interest rate swap agreements to reduce the impact of interest rate changes on its variable rate borrowings. Interest rate swaps are agreements with a counterparty to exchange periodic interest payments (such as pay fixed, receive variable) calculated on a notional principal amount. The interest rate differential to be paid or received is accrued to interest expense (see Note 5). In addition, the Company periodically enters into foreign currency exchange forward and options contracts to mitigate the effects of fluctuations in foreign exchange rates in countries where it has significant operations.

**INCOME TAXES** Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The provision for income taxes includes federal, state and foreign income taxes (see Note 8).

**FOREIGN CURRENCY TRANSLATION** The financial statements of the Company's foreign subsidiaries are translated into U.S. currency under the guidelines set forth in SFAS No. 52, "Foreign Currency Translation." The effects of currency exchange rate changes on intercompany transactions of a long-term investment nature are accumulated and carried as a component of shareholders' equity. The effects of currency exchange rate changes on intercompany transactions that are non U.S. dollar amounts are charged or credited to earnings.

**EARNINGS PER SHARE** Basic earnings per common share are computed by dividing net income applicable to common shareholders by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per common share are computed by dividing net income applicable to common shareholders by the weighted average number of shares of common stock outstanding adjusted for the assumed conversion of all dilutive securities (such as employee stock options). See Note 11.

**OTHER COMPREHENSIVE INCOME** In 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" which established standards for reporting and displaying comprehensive income and its components in financial statements. Comprehensive income is defined as net income and all other nonowner changes in shareholders' equity. The Company's accumulated other comprehensive income (loss) consists entirely of foreign currency translation adjustments.

**SIGNIFICANT CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK** The Company's trade receivables are primarily from rail and transit industry original equipment manufacturers, railroad carriers and commercial companies that utilize rail cars in their operations, such as utility and chemical companies. No one customer accounted for more than 10% of the Company's sales in 1998, 1997 or 1996. The allowance for doubtful accounts was \$2.9 million and \$2.0 million as of December 31, 1998 and 1997, respectively.

**EMPLOYEES** As of December 31, 1998, approximately 28% of the Company's workforce is covered by collective bargaining agreements. These agreements are generally effective through 2001 and 2002.

**RECENT ACCOUNTING PRONOUNCEMENTS** In June 1998, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Statement establishes accounting and reporting standards requiring that every derivative instrument be measured at its fair value and the changes in fair value be recorded currently in earnings unless specific hedge accounting criteria are met. Statement No. 133 is effective for fiscal years beginning after June 15, 1999, and accordingly, the Company anticipates adopting this standard January 1,

2000. Management continues to evaluate the impact the standard will have on results of operations and financial condition.

### 3. ACQUISITIONS

On October 5, 1998, the Company purchased the railway electronics business (Rockwell Railroad Electronics) (RRE) of Rockwell Collins, Inc., a wholly owned subsidiary of Rockwell International Corporation, for approximately \$80 million in cash. The purchase was initially financed by obtaining additional term debt of \$40 million through an amendment to the Company's existing credit facility, an unsecured bank loan of \$30 million and additional borrowings under the Company's revolving credit agreement. RRE is a leading manufacturer and supplier of mobile electronics (display and positioning systems), data communications, and electronic braking systems for the railroad industry and its operations are in the United States. Revenues of the acquired business for its fiscal year ended September 30, 1998 were approximately \$46 million. The acquisition was accounted for under the purchase accounting method and, accordingly, its results are included in WABCO's consolidated financial statements since the date of acquisition.

The excess of the purchase price over the fair value of the net assets acquired was approximately \$63 million and was allocated to goodwill. This amount is based upon an independent appraisal and may decrease as a result of adjustments to purchase price.

The following unaudited pro forma results of operations, including the effects of pro forma adjustments related to the acquisition of Rockwell Railroad Electronics have been prepared as if this transaction had occurred at the beginning of 1997:

DOLLARS IN THOUSANDS, EXCEPT PER SHARE	(UNAUDITED)	
	YEAR ENDED DECEMBER 31	
	1998	1997
Net sales	\$707,840	\$597,948
Income before extraordinary income	41,414	32,575
Net income	38,099	32,575
Diluted earnings per share		
As reported	1.62	1.42
Pro forma	1.48	1.24

The pro forma financial information above does not purport to present what the Company's results of operations would have been if the acquisition of RRE had actually occurred on January 1, 1997, or to project the Company's results of operations for any future period, and does not reflect anticipated cost savings through the combination of these operations.

In the past three years, the Company also completed the following acquisitions:

- i) The October 1998 acquisition of the United States railway service center business of Comet Industries, Inc., for \$13.2 million, financed through the issuance of \$12.2 million of promissory notes. Annual revenue for its most recent fiscal year was approximately \$20 million.
- ii) On July 30, 1998, purchased assets and assumed certain liabilities of U.S.-based Lokring Corporation, for \$5.1 million in cash. Lokring develops, manufactures and markets patented non-welded connectors and sealing products for railroad and other industries. Annual sales in 1997 were approximately \$10 million.
- iii) Acquired in April 1998, 100% of the stock of RFS (E) Limited ("RFS") of England, for approximately \$10.0 million including the assumption of certain debt. RFS is a leading provider of vehicle overhaul, conversion and maintenance services to Britain's railway industry. Annual revenue for its most recent fiscal year was approximately \$27.5 million.
- iv) Acquired in April 1998, the transit coupler product line of Hadady Corporation located in the United States for \$4.6 million in cash.
- v) In October 1997, the Company purchased the rail products business and related assets of Sloan Valve Company for \$2.5 million.
- vi) Effective July 31, 1997 the Company acquired 100% of the stock of H.P. s.r.l. ("HP"), an Italian transit company, for a total purchase price of \$5.8 million, which included the assumption of \$2.3 million in debt. HP is located in Sassuolo, Italy and is a leading supplier of door controls for transit rail cars and buses in the Italian market. Annual revenues approximated \$9 million.
- vii) Acquired in May 1997 Stone Safety Service Corporation, New Jersey, and Stone U.K. Limited ("Stone"), a supplier of transit air conditioning equipment and in June 1997, the Company acquired the heavy rail air conditioning business of Thermo King Corporation ("Thermo King") from Westinghouse Electric. The aggregate purchase price for the Stone and Thermo King acquisitions was approximately

\$7.7 million. Annual revenues of the these acquisitions prior to purchase were approximately \$30 million.

- viii) On September 19, 1996, the Company purchased the Vapor Group ("Vapor") for approximately \$63.9 million in cash. Vapor is the leading manufacturer of door controls for transit rail cars and metropolitan buses in the United States. Annual revenues for its most recent fiscal year prior to the acquisition totaled \$65 million.
- ix) In January 1996, the Company acquired Futuris Industrial Products Pty. Ltd., an Australian molded products manufacturer, for approximately \$15 million. Annual revenues prior to acquisition were approximately \$10.5 million.

All of these other acquisitions were accounted for under the purchase method. Accordingly, the results of operations of the applicable acquisition are included in the Company's financial statements prospectively from the acquisition date. The excess of the purchase price over the fair value of net assets was allocated to goodwill. Such recorded amounts totaled approximately \$24 million, \$7 million and \$17 million, in 1998, 1997 and 1996, respectively.

#### 4. INTANGIBLES

Intangible assets of the Company, other than goodwill, consist of the following:

DOLLARS IN THOUSANDS	DECEMBER 31	
	1998	1997
Patents, tradenames and trademarks, net of accumulated amortization of \$22,874 and \$19,768 (4-40 years)	\$35,251	\$35,942
Covenants not to compete, net of accumulated amortization of \$10,144 and \$9,333 (5 years)	6,092	1,133
Other intangibles, net of accumulated amortization of \$7,356 and \$7,052 (3-7 years)	4,678	5,391
	\$46,021	\$42,466

At December 31, 1998 and 1997, goodwill, net of accumulated amortization of \$7.7 million and \$5.4 million, respectively, totaled \$151.7 million and \$66.6 million, respectively. The Company evaluates the recoverability of intangible assets, including goodwill, at each balance sheet date based on forecasted future operations, undiscounted cash flows and other subjective criteria. Based upon historical information, management believes that the carrying amount of these intangible assets will be realizable over the respective amortization periods.

#### 5. LONG-TERM DEBT

Long-term debt consisted of the following:

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31	
	1998	1997
Credit Agreement		
Revolving credit	\$105,555	\$100,880
Term loan	202,500	145,500
9 3/8% Senior notes due June 5, 2005	100,000	100,000
Unsecured credit facility	30,000	
Pulse note	16,990	16,990
Comet notes	10,200	
Other	2,572	1,564
Total	467,817	364,934
Less-current portion	30,579	32,600
Long-term portion	\$437,238	\$332,334

#### Credit Agreement

In June 1998, the Company refinanced its credit facility with a consortium of commercial banks and amended it in October 1998 in connection with the Rockwell acquisition (as amended, the "Credit Agreement"). The Credit Agreement provides for an aggregate credit facility of \$350 million, consisting of up to \$170

million of June 1998 term loans, up to \$40 million of September 1998 term loans, and up to \$140 million of revolving loans. In addition, the Credit Agreement provides for swingline loans of up to an aggregate amount of \$5 million, and for the issuance of letters of credit in an aggregate face amount of up to \$50 million. Swingline loans and the issuance of letters of credit will reduce the amount of revolving loans which may be incurred under the revolving credit facility.

At December 31, 1998, the Company had available borrowing capacity, net of letters of credit, of approximately \$12 million. The Company repaid a portion of its borrowings under the Credit Agreement in January 1999 with proceeds of the offering of \$75 million of 9 3/8 Senior Notes, as further described

below, resulting in increased borrowing capacity of \$47 million. (See Note 19).

The Credit Agreement limits the Company with respect to declaring or making cash dividend payments and prohibits the Company from declaring or making other distributions whether in cash, property, securities or a combination thereof, with respect to any shares of the Company's capital stock subject to certain exceptions, including an exception pursuant to which the Company will be permitted to pay cash dividends on its Common Stock in any fiscal year in an aggregate amount up to \$15 million minus the aggregate amount of prepayments of the Pulse note during such fiscal year so long as no default in the payment of interest or fees has occurred thereunder. The Credit Agreement contains various other covenants and restrictions including, without limitation, the following: a limitation on the incurrence of additional indebtedness; a limitation on mergers, consolidations and sales of assets and acquisitions (other than mergers and consolidations with certain subsidiaries, sales of assets in the ordinary course of business, and acquisitions for which the consideration paid by the Company does not exceed \$50 million individually or \$150 million in the aggregate); a limitation on liens; a limitation on sale and leasebacks; a limitation on investments, loans and advances; a limitation on certain debt payments; a limitation on capital expenditures; a minimum interest expense coverage ratio; and a maximum leverage ratio. All debt incurred under the Credit Agreement is secured by substantially all of the assets of the Company and its domestic subsidiaries and is guaranteed by the Company's domestic subsidiaries.

The Credit Agreement contains customary events of default, including payment defaults, failure of representations to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and "change of control" of the Company.

Credit Agreement borrowings bear variable interest rates indexed to common indexes such as LIBOR. The weighted-average contractual interest rate on Credit Agreement borrowings was 6.71% on December 31, 1998. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. On December 31 1998, the notional value of interest rate swaps outstanding totaled \$50 million and effectively changed the Company's interest rate from a variable rate to a fixed rate of 7.09%. The interest rate swap agreements mature in 2000 and 2001. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance.

Scheduled term loan principal repayments required under the Credit Agreement as of December 31, 1998 are as follows:

Dollars in millions

1999	\$ 20.0
2000	32.5
2001	40.0
2002	50.0
2003	60.0
	-----
	\$202.5

#### 9 3/8% Senior Notes Due June 2005

In June 1995 the Company issued \$100 million of 9 3/8% Senior Notes due 2005 (the "Existing Notes"). In January 1999, the Company issued an additional \$75 million of 9 3/8% Senior Notes due 2005 (the "Additional Notes"; the Existing Notes and the Additional Notes are collectively, the "Notes"). See "Subsequent Event" Note 19.

The terms of the Existing Notes and the Additional Notes are substantially the same, and the Existing Notes and the Additional Notes were issued pursuant to indentures that are substantially the same. The Notes bear interest at the rate of 9 3/8% and mature in June 2005. The net proceeds of the Existing Notes were used to prepay term loans outstanding under the then existing credit agreement. The net proceeds of the Additional Notes were used to repay the unsecured credit facility and to reduce revolving credit borrowings.

The Notes are senior unsecured obligations of the Company and rank pari passu in right of payment with all existing and future indebtedness under (i) capitalized lease obligations, (ii) the Credit Agreement, (iii) indebtedness of the Company for money borrowed and (iv) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which the Company is responsible or

liable unless, in the case of clause (iii) or (iv), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are subordinate in right of payment to the Notes.

#### Unsecured Credit Facility

In October 1998, the Company obtained a \$30 million unsecured credit facility from a group of commercial banks for the purpose of financing the Rockwell acquisition. At December 31, 1998, the interest rate on the note was 9.75% per annum. In January 1999, this facility was repaid with proceeds of the Additional Note offering. See "Subsequent Event" Note 19.

#### Pulse Note

As partial payment for the Pulse acquisition, the Company issued a \$17.0 million note due January 31, 2004. Interest is payable semiannually and accrues at 9.5% until February 1, 2001; and from February 1, 2001 until January 31, 2004, interest will accrue at the prime rate charged by Chase Manhattan Bank on December 31, 2000 plus 1%.

#### Comet Notes

In connection with the Comet acquisition, the Company issued notes totaling \$12.2 million, of which unsecured notes totaling \$6.2 million were delivered by the Company and a note in the amount of \$6 million was delivered by a subsidiary of the Company and secured by the acquired assets. The notes bore interest at the rate of 10% per annum and were scheduled to mature on October 8, 1999. These notes were repaid in January 1999 (See Note 19).

Capitalized debt issuance costs of \$4.8 million, net of accumulated amortization, are being amortized over the terms of the borrowings.

## 6. EMPLOYEE BENEFIT PLANS

Dollars in thousands AS OF OR FOR THE YEAR ENDED DECEMBER 31	PENSION PLANS		POSTRETIREMENT PLAN	
	1998	1997	1998	1997
<b>CHANGE IN BENEFIT OBLIGATION</b>				
Benefit (obligation) at beginning of year.....	\$(39,424)	(34,126)	\$(17,750)	\$(14,980)
Service cost.....	(1,363)	(1,176)	(300)	(289)
Interest cost.....	(2,904)	(2,720)	(1,273)	(1,226)
Participant contribution.....	(32)	(35)		
Actuarial gain (loss).....	(4,796)	(3,964)	(1,348)	(1,526)
Plan amendments.....	(1,480)	(1,025)		
Benefits paid.....	2,725	2,797	392	271
Effect of currency rate changes.....	1,748	825		
Benefit (obligation) at end of year.....	\$(45,526)	\$(39,424)	\$(20,279)	\$(17,750)
<b>CHANGE IN PLAN ASSETS</b>				
Fair value of plan assets at beginning of year....	\$ 37,884	\$ 33,702	--	--
Actual return on plan assets.....	5,335	5,519		
Employer contribution.....	3,688	2,550		
Participant contribution.....	32	35		
Administrative expenses.....	(116)	(213)		
Benefits paid.....	(2,725)	(2,797)		
Effect of currency rate changes.....	(1,741)	(912)		
Fair value of plan assets at end of year.....	\$ 42,357	\$ 39,884	--	--
<b>FUNDED STATUS</b>				
Funded status at year end.....	\$ (3,169)	\$ (1,540)	\$(20,279)	\$(17,750)
Unrecognized net actuarial (gain) loss.....	2,111	(261)	3,960	2,856
Unrecognized prior service cost.....	3,151	2,162	(221)	(290)
Unrecognized transition obligation.....			302	324
Prepaid (accrued) benefit cost.....	\$ 2,093	\$ 361	\$(16,238)	\$(14,860)

	PENSION PLANS			POSTRETIREMENT PLAN		
	1998	1997	1996	1998	1997	1996
<b>NET PERIODIC BENEFIT COST</b>						
Service cost.....	\$ 1,505	\$ 1,305	\$ 1,054	\$ 340	\$ 289	\$ 267
Interest cost.....	2,904	2,675	2,394	1,351	1,226	935
Expected return on assets.....	(3,717)	(4,463)	(2,482)			
Net amortization/deferrals.....	755	1,865	302	195	155	13
Special event.....			696			
Net periodic benefit cost.....	\$ 1,447	\$ 1,382	\$ 1,964	\$1,886	\$1,670	\$1,215
<b>ASSUMPTIONS</b>						
Discount rate.....	6.75%	7.25%	8.50%	6.75%	7.25%	7.50%
Expected rate of return.....	10.00	9.25	9.25	--	--	--

The Company sponsors defined benefit pension plans which cover substantially all union employees and certain non-union Canadian employees and provide pension benefits of stated amounts for each year of service of the employee. In connection with the establishment of the ESOP (see Note 7) in January 1995, the pension plan for U.S. salaried employees was modified to eliminate any credit (or accrual) for current service costs for any future periods, effective March 31, 1995. The Company's 401(k) savings plan was also amended to provide for the Company's future matching contributions to be made to the ESOP in the form of the Company's Common Stock. The Company's funding methods, which are primarily based on the ERISA requirements, differ from those used to recognize pension expense, which is primarily based on the projected unit credit method, in the accompanying financial statements. Within the analysis above, the pension plan for U.S. salaried employees has a benefit obligation of \$22,338 and plan assets of \$20,708 as of December 31, 1998. In 1996, as the result of an early retirement package offered to certain union employees, the Company incurred a charge of \$696,000 reflected as a special event.

In addition to providing pension benefits, the Company had provided certain unfunded postretirement health care and life insurance benefits for substantially all U.S. employees. In conjunction with the establishment of the ESOP in January 1995 (see Note 7), the postretirement health care and life insurance benefits for salaried employees were modified to discontinue benefits for employees who had not attained the age of 50 by March 31, 1995. The Company is not obligated to pay health care and life insurance benefits to individuals who had retired prior to 1990.

A one percentage point increase in the assumed health care cost trend rates for each future year increases annual postretirement benefit expense by \$290,832 and the accumulated postretirement benefit obligation by \$3.3 million. A one percentage point decrease in the assumed health care cost trend rates for each future year decreases annual postretirement benefit expense by \$230,163 and the accumulated postretirement benefit obligation by \$2.6 million.

#### 7. EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST (ESOP)

Effective January 31, 1995, the Company established the ESOP to enable participating employees to obtain ownership interests in the Company. Employees eligible to participate in the ESOP primarily include the salaried U.S. employees and, as described in Note 6, the ESOP contributions are intended to supplement or replace other salaried employee benefit plans.

In connection with the establishment of the ESOP, the Company made a \$140 million loan to the ESOP, which was used to purchase 9,336,000 shares of the Company's outstanding common stock. The ESOP loan initially had a term of 50 years with interest at 8.5% and was collateralized by the shares purchased by the ESOP. Company contributions to the ESOP will be used to repay the ESOP loan's annual debt service requirements of approximately \$12 million. The Company is obligated to contribute amounts sufficient to repay the ESOP loan. The ESOP uses such Company contributions to repay the ESOP loan. Approximately 187,000 shares were to be allocated annually to participants over a 50-year period. These transactions occur simultaneously and, for accounting purposes, offset each other. Unearned ESOP shares of \$128.5 million at December 31, 1998, is reflected as a reduction in shareholders' equity in the accompanying financial statements and will be amortized to compensation expense coterminous with the ESOP loan. Total compensation expense recognized for allocated ESOP shares were \$4.5 million, \$3.2 million and \$2.9 million in 1998, 1997 and 1996, respectively.

#### 8. INCOME TAXES

The provision for income taxes consisted of the following:

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31		
	1998	1997	1996
Current taxes			
Federal	\$19,629	\$18,490	\$17,498
State	1,330	1,849	2,138
Foreign	10,537	6,494	2,372
	31,496	26,833	22,008
Deferred taxes			
Federal	(1,964)	(1,375)	(2,432)
State	(282)	(137)	(278)
Foreign	(1,689)	(1,994)	1,625
	(3,935)	(3,506)	(1,085)
Total provision	\$27,561	\$23,327	\$20,923

The 1998 provision excludes a \$2.0 million income tax effect on the extraordinary loss (see Note 9)

related to the early extinguishment of certain debt obligations.

The components of income before taxes on income for U.S. and foreign operations, primarily Canada, were \$49.9 million and \$22.6 million, respectively, for 1998, \$47.9 million and \$12.7 million, respectively, for 1997, and \$42.4 million and \$11.3 million, respectively, for 1996.

A reconciliation of the United States federal statutory income tax rate to the effective income tax rate is provided below:

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
U. S. federal statutory rate	35.0%	35.0%	35.0%
State taxes	2.1	2.7	3.5
Foreign	.9	.8	.5
Effective rate	38.0%	38.5%	39.0%

The sources of deferred income taxes were as follows:

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31		
	1998	1997	1996
Deferred debt costs	\$(1,673)		
ESOP	(1,513)	\$(1,150)	\$ (919)
Depreciation	(964)	176	782
Postretirement benefits	(593)	(851)	(171)
Inventory	(350)	451	(1,450)
Accrued warranty	1,157	(1,697)	(497)
Pension	31	958	(319)
Other liabilities and reserves	(30)	(1,393)	1,489
Deferred tax benefits	\$(3,935)	\$(3,506)	\$(1,085)

Components deferred tax assets and liabilities were as follows:

DOLLARS IN THOUSANDS	DECEMBER 31	
	1998	1997
ESOP	\$ 4,539	\$ 3,026
Postretirement benefits	3,508	2,915
Inventory	3,461	3,111
Accrued warranty	3,021	4,178
Deferred debt costs	1,673	
Pension	749	780
Depreciation	(7,458)	(8,422)
Other	50	20
Net deferred tax asset	\$ 9,543	\$ 5,608

#### 9. EXTRAORDINARY ITEM

In June 1998, the Company refinanced its credit agreement and subsequently amended the agreement in October 1998. This resulted in a write off of previously deferred financing costs of approximately \$3.3 million, net of tax, (\$.13 per diluted share) which has been reported as an extraordinary item.

#### 10. EARNINGS PER SHARE

The computation of earnings per share is as follows:

DOLLARS IN THOUSANDS, EXCEPT PER SHARE	YEAR ENDED DECEMBER 31		
	1998	1997	1996
BASIC			
Income before extraordinary item applicable to common shareholders	\$44,969	\$37,263	\$32,725
Divided by weighted average shares			

outstanding	25,081	25,693	28,473
Basic earnings per share before extraordinary item	\$1.79	\$1.45	\$1.15
-----			
DILUTED			
Income before extraordinary item applicable to common shareholders	\$44,969	\$37,263	\$32,725
Divided by sum of weighted average shares outstanding	25,081	25,693	28,473
Conversion of dilutive stock options	627	480	
-----			
Diluted shares outstanding	25,708	26,173	28,473
Diluted earnings per share before extraordinary item	\$1.75	\$1.42	\$1.15
-----			

Options to purchase .2 million, .5 million and 2.2 million shares of common stock were outstanding in 1998, 1997, and 1996, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price exceeded the average market price of the common shares.

#### 11. STOCK-BASED COMPENSATION PLANS

STOCK OPTIONS Under the 1995 Stock Incentive Plan, as amended in 1998, the Company may grant options to employees of Westinghouse Air Brake Company and Subsidiaries for up to 4.7 million shares of Westinghouse Air Brake Company Common Stock. The 1998 amendment increased the number of stock options available for grant, from 3.1 million to 4.7 million. Options to purchase approximately 3.8 million shares of Westinghouse Air Brake Company Common Stock under the plan have been granted to employees of Westinghouse Air Brake Company at, or in excess of, fair market value at the date of grant.

Generally, the options become exercisable over three and five-year vesting periods and expire ten years from the date of grant.

As part of a long-term incentive program, in 1998 and 1996 the Company granted options to purchase up to 500,020 and 684,206 shares, respectively, to certain executives under the 1995 Stock Incentive Plan. The option price per share is the greater of the market value of the stock on the date of grant or \$20 and \$14, respectively. The options vest 100% after eight years and are subject to accelerated vesting after three years if the Company achieves certain earnings targets as established by the compensation committee of the board of directors.

The Company also has a nonemployee directors stock option plan under which 100,000 shares of common stock are reserved for issuance at a price not less than \$14. Through year-end 1998, the Company granted nonstatutory stock options to nonemployee directors to purchase a total of 35,000 shares.

**EMPLOYEE STOCK PURCHASE PLAN** In 1998, the Company adopted an employee stock purchase plan (ESPP). The ESPP has 500,000 shares available for issuance. Participants purchase the Corporation's Common Stock at 85% of the lesser of fair market value on the first or last day of each offering period. Shares issued pursuant to the ESPP in 1998 were 6,998 shares and the average purchase price per share was \$16.575.

The Company applies APB 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized under these plans. Had compensation expense for these plans been determined based on the fair value at the grant dates for awards, the Company's net income and earnings per share would be as set forth in the following table. For purposes of pro forma disclosures, the estimated fair value is amortized to expense over the options' vesting period.

DOLLARS IN THOUSANDS, EXCEPT PER SHARE	YEAR ENDED DECEMBER 31		
	1998	1997	1996
-----			
Net income			
As reported	\$41,654	\$37,263	\$32,725
Pro forma	38,324	34,007	31,117
Diluted earnings per share			
As reported	\$ 1.62	\$ 1.42	\$ 1.15
Pro forma	1.49	1.30	1.09
-----			

Since compensation expense associated with option grants would be recognized over the vesting period, the initial impact of applying SFAS No. 123 on pro forma net income is not representative of the potential impact on pro forma net income in future years. In each subsequent year, pro forma compensation expense would include the effect of recognizing a portion of compensation expense from multiple awards.

For purposes of presenting pro forma results, 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:

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
-----			
Dividend yield	.20%	.23%	.32%
Risk-free interest rate	4.56	5.80	6.25
Stock price volatility	29.10	29.22	30.43
Expected life (years)	5.0	5.3	7.3
-----			

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options, which are significantly different than employee stock options. Although this valuation model is an acceptable method for use in presenting pro forma information, because of the differences in traded options and employee stock options, the Black-Scholes model does not necessarily provide a single measure of the fair value of employee stock options.

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

	1998		1997		1996	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Beginning of year.....	2,778,443	\$14.64	2,222,456	\$13.63	1,279,500	\$14.00
Granted.....	813,520	20.99	748,126	17.84	958,956	13.14
Exercised.....	(169,025)	14.39	(135,139)	13.75		
Canceled.....	(134,951)	15.86	(57,000)	14.00	(16,000)	14.00
End of year.....	3,287,987	16.29	2,778,443	14.64	2,222,456	13.63
Exercisable at end of year.....	1,148,134		671,971		332,992	
Available for future grant.....	1,107,849		186,418		877,544	
Weighted average fair value of options granted during the year....	\$8.98		\$8.07		\$4.05	

Exercise prices for options outstanding as of December 31, 1998 ranged from \$11.00 to \$27.66. The weighted-average remaining contractual life of those options is 8 years.

**RESTRICTED STOCK AWARD** In 1998, the Company granted 15,000 shares of restricted Common Stock to an officer. The shares vest according to a vesting schedule over a three-year period. The grant date market value totaled \$372 thousand and is being amortized to expense over the vesting period. Unamortized compensation is recorded as a component of shareholders' equity.

**EXECUTIVE RETIREMENT PLAN** Under the 1997 Executive Retirement Plan, the Company may award its Common Stock to certain employees including certain executives who do not participate in the ESOP. Through December 31, 1998, 19,555 shares have been awarded with a fair market value of approximately \$400 thousand.

With respect to the Restricted Stock Award and the Executive Retirement Plan, compensation expense is recognized in the consolidated statement of operations.

## 12. OPERATING LEASES

Minimum annual rentals payable under noncancelable leases in each of the next five years and beyond are as follows:

Dollars in millions

1999	\$ 3.2
2000	2.6
2001	2.2
2002	1.2
2003	.7
Thereafter	2.1
	-----
	\$12.0

Rental expense under all leases was approximately \$3.8 million, \$3.3 million and \$2.8 million for the years ended December 31, 1998, 1997 and 1996, respectively. Operating leases relate principally to facilities, transportation equipment and communication systems.

## 13. STOCK REPURCHASE

In March 1997, the Company repurchased from Scandinavian Incentive Holdings, B.V., ("SIH"), 4 million shares of the Company's Common Stock for an aggregate purchase price of \$44 million plus fees and expenses of approximately \$2 million (the "Redemption"). The Redemption was effected pursuant to a Redemption Agreement (the "Redemption Agreement") dated as of March 5, 1997 among the Company, SIH and Incentive AB, the sole shareholder of SIH. Concurrently therewith, SIH sold its remaining 6 million shares of WABCO Common Stock to investors consisting of Vestar Equity Partners, L.P., Charlesbank Capital Partners, LLC, f/k/a Harvard

Private Capital Holdings, Inc., American Industrial Partners Capital Fund II, L.P. and certain members of management of the Company (the "Management Purchasers") for a purchase price of \$11 per share in cash, pursuant to a Stock Purchase Agreement dated as of March 5, 1997, which sale was effective as of March 31, 1997 (the "SIH Purchase").

To finance the Redemption, the Company amended its Credit Agreement to increase the revolving credit availability by \$15 million (from \$125 million to \$140 million) and to obtain a waiver of the requirement to make a prepayment in an aggregate principal amount equal to 50% of excess cash flow for 1996, or approximately \$11.5 million. The Company obtained consents from record owners as of March 3, 1997 of the Existing Notes to certain amendments to a covenant contained in the Indenture dated as of June 20, 1995 among the Company, as issuer, and The Bank of New York, as trustee, pursuant to which the Notes were issued (the "Indenture"). The Company borrowed \$46 million to fund the Redemption and related expenses.

The following presents the Company's results for the year ended December 31, 1997 on a pro forma basis as if the stock repurchase had occurred on January 1, 1997:

IN THOUSANDS, EXCEPT PER SHARE	REPORTED	PRO FORMA
Net income	\$37,263	\$36,774
Basic earnings per share	1.45	1.49
Diluted earnings per share	1.42	1.46
Average shares used for Basic	25,693	24,718
Diluted	26,173	25,198

#### 14. STOCKHOLDERS' AND VOTING TRUST AGREEMENTS

As of December 31, 1998, the approximate ownership interests in the Company's common stock are held by management and the ESOP (58%), the investors referred to in Note 13 (17%), and all others including public shareholders (25%). The investors referred to in Note 13 and certain members of senior management purchased 6 million shares of WABCO common stock from SIH. The seller is a successor in interest to Incentive AB (a Swedish corporation) which acquired Investment AB Cardo, an original equity owner at the time of the 1990 acquisition of the Railway Products Group of American Standard, Inc. ("1990 Acquisition"). A Stockholders Agreement exists between management and the investors referred to in Note 13 that provides for, among other things, the composition of the Board of Directors as long as certain minimum stock ownership percentages are maintained, restrictions on the disposition of shares and rights to request the registration of the shares.

The active original management owners have entered into an Amended Voting Trust/Disposition Agreement effective December 13, 1995, as amended. The agreement provides for, among other matters, the stock to be voted as one block and restrictions on the sale or transfer of such stock. The agreement expires on January 1, 2000 and can be terminated by an affirmative vote of two-thirds of the stock shares held by the trust. In connection with this Voting Trust, the Company has entered into an Indemnification Agreement with the trustees, which is covered by the Company's directors and officers liability insurance.

The shares held by the ESOP (established January 31, 1995) are subject to the terms of the related ESOP Loan Agreement, Employee Stock Ownership Trust Agreement, Employee Stock Ownership Plan and the Pledge Agreement. The ESOP is further described in Note 7.

#### 15. PREFERRED STOCK

The Company's authorized capital stock includes 1,000,000 shares of preferred stock. The Board of Directors has the authority to issue the preferred stock and to fix the designations, powers, preferences and rights of the shares of each such class or series, including dividend rates, conversion rights, voting rights, terms of redemption and liquidation preferences, without any further vote or action by the Company's shareholders. The rights and preferences of the preferred stock would be superior to those of the common stock. At December 31, 1998 and 1997 there was no preferred stock issued or outstanding.

#### 16. COMMITMENTS AND CONTINGENCIES

Under the terms of the purchase agreement and related documents for the 1990 Acquisition, American Standard, Inc. ("ASI"), has indemnified the Company for certain items including, among others, environmental claims. The indemnification provisions of the agreement expire at various dates through 2000. If ASI was unable to honor or meet these indemnifications, the Company would be responsible for such items. In the opinion of management, ASI currently has the ability to meet its indemnification

obligations. ASI has not disputed any coverage or reimbursement under these provisions.

The Company, through one of its operating subsidiaries, has been named, along with other parties, as a Potentially Responsible Party (PRP) under the North Carolina Inactive Sites Response Act because of an alleged release or threat of release of hazardous substances at the "Old James Landfill" site in North Carolina. The Company believes that any costs associated with the cleanup activities at this site which it may be held responsible for, if any, are covered by (a) the ASI indemnification referred to above, as ASI previously owned 50% of the subsidiary and (b) a related insurance policy which expires January 2002 for environmental claims provided by the other former 50% owner of the involved operating subsidiary. The Company has submitted a claim under the policy for any costs of clean up imposed on or incurred by the Company in connection with the "Old James Landfill" and Rocky Mountain International Insurance, Ltd. has acknowledged coverage under the policy, subject to the stated policy exclusions. In addition, management believes that such costs, if any, attributable to the Company will not be material and, therefore, has not established a reserve for such costs.

The Company's operations do not use and its products do not contain any asbestos. The operations acquired by the Company from ASI discontinued the use of asbestos in 1980. The Company is named as a codefendant in asbestos claims filed by third parties against ASI relating to events occurring prior to 1981 (which is significantly prior to the 1990 acquisition). These claims are covered by the indemnification agreement and the insurance policy referred to above. ASI has taken complete responsibility in administering, defending and settling the claims. The Company is not involved with, nor has it incurred any costs related to, these claims. ASI has not claimed that the Company has any responsibility for these cases. Management believes that these claims are not related to the Company and that such costs, if any, attributable to the Company and will not be material; therefore, the financial statements accordingly do not reflect any costs or reserves for such claims.

In the opinion of management, based on available information, environmental matters and asbestos claims do not presently represent any material contingencies to the Company.

On February 12, 1999, GE Harris Railway Electronics, LLC and GE Harris Railway Electronic Services, LLC (collectively, "GE Harris") brought suit against the Company for alleged patent infringement and unfair competition related to a communications system installed in one of the Company's products. GE Harris is seeking to prohibit the Company from future infringement and is seeking an unspecified amount of money damages to recover, in part, royalties. While this lawsuit is in the earliest stages, the Company believes the technology developed by the Company does not infringe on the GE Harris patents.

From time to time the Company is involved in litigation relating to claims arising out of its operations in the ordinary course of business. As of the date hereof, the Company is involved in no litigation that the Company believes will have a material adverse effect on its financial condition, results of operations or liquidity. The Company historically has not been required to pay any material liability claims.

#### 17. SEGMENT INFORMATION

WABCO has three reportable segments -- Railroad Group, Transit Group and Molded Products 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:

RAILROAD GROUP consists of products geared to the production of freight cars and locomotives, including braking control equipment and train coupler systems and operating freight railroads. Revenues are derived from OEM and aftermarket sales and from repairs and services.

TRANSIT GROUP consists of products for passenger transit vehicles (typically subways, rail and busses) that include braking and monitoring systems, climate control and door equipment that are engineered to meet individual customer specifications. Revenues are derived from OEM and aftermarket sales as well as from repairs and services.

MOLDED PRODUCTS GROUP include manufacturing and distribution of brake shoes and other rubberized products. Revenues are generally derived from the aftermarket.

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 below 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 1998 is as follows:

IN THOUSANDS	RAILROAD GROUP	TRANSIT GROUP	MOLDED PRODUCTS GROUP	CORPORATE ACTIVITIES	TOTAL
Sales to external customers.....	\$388,797	\$211,801	\$ 70,311		\$670,909
Intersegment sales.....	14,137	1,276	8,805	\$(24,218)	
Total sales.....	\$402,934	\$213,077	\$ 79,116	\$(24,218)	\$670,909
Income from operations.....	\$ 78,987	\$ 16,047	\$ 20,713	\$(11,081)	\$104,666
Interest expense and other.....				32,136	32,136
Income before income taxes and extraordinary item.....	\$ 78,987	\$ 16,047	\$ 20,713	\$(43,217)	\$ 72,530
Depreciation and amortization....	\$ 7,401	\$ 4,742	\$ 1,952	\$ 11,113	\$ 25,208
Capital expenditures.....	12,111	8,470	5,393	2,983	28,957
Working capital.....	75,516	41,856	9,762	(31,723)	95,411
Segment assets.....	325,585	182,398	48,550	39,651	596,184

Segment financial information for 1997 is as follows:

IN THOUSANDS	RAILROAD GROUP	TRANSIT GROUP	MOLDED PRODUCTS GROUP	CORPORATE ACTIVITIES	TOTAL
Sales to external customers.....	\$310,295	\$189,541	\$ 64,605		\$564,441
Intersegment sales.....	8,977	1,247	7,323	\$(17,547)	
Total sales.....	\$319,272	\$190,788	\$ 71,928	\$(17,547)	\$564,441
Income from operations.....	\$ 63,840	\$ 19,907	\$ 18,364	\$(12,136)	\$ 89,975
Interest expense and other.....				29,385	29,385
Income before income taxes and extraordinary item.....	\$ 63,840	\$ 19,907	\$ 18,364	\$(41,521)	\$ 60,590
Depreciation and amortization....	\$ 6,284	\$ 4,168	\$ 2,029	\$ 12,143	\$ 24,624
Capital expenditures.....	19,236	5,341	3,254	1,365	29,196
Working capital.....	42,485	29,553	8,401	(31,720)	48,719
Segment assets.....	175,586	149,669	42,865	42,759	410,879

Segment financial information for 1996 is as follows:

IN THOUSANDS	RAILROAD GROUP	TRANSIT GROUP	MOLDED PRODUCTS GROUP	CORPORATE ACTIVITIES	TOTAL
Sales to external customers.....	\$294,021	\$100,902	\$58,589		\$453,512
Intersegment sales.....	12,707	863	6,089	\$(19,659)	
Total sales.....	\$306,728	\$101,765	\$64,678	\$(19,659)	\$453,512
Income from operations.....	\$ 62,839	\$ 12,865	\$15,057	\$(11,043)	\$ 79,718
Interest expense and other.....				26,070	26,070
Income before income taxes and extraordinary item.....	\$ 62,839	\$ 12,865	\$15,057	\$(37,113)	\$ 53,648
Depreciation and amortization.....	\$ 5,893	\$ 2,785	\$ 1,563	\$ 12,008	\$ 22,249
Capital expenditures.....	8,759	2,306	1,663	127	12,855
Working capital.....	46,705	21,862	7,922	(28,313)	48,176
Segment assets.....	157,768	117,274	40,890	47,304	363,236

The following geographic area data include trade revenues based on product shipment destination and long-lived assets consists of plant, property and equipment, net of depreciation, that are resident in their respective countries.

In thousands YEAR ENDED DECEMBER 31	SALES			LONG-LIVED ASSETS		
	1998	1997	1996	1998	1997	1996
United States.....	\$486,010	\$421,057	\$333,405	\$ 78,720	\$ 71,030	\$63,348
Canada.....	74,066	72,618	76,301	38,775	34,529	30,178
Other international.....	110,833	70,766	43,806	7,486	2,808	2,318
Total.....	\$670,909	\$564,441	\$453,512	\$124,981	\$108,367	\$95,844

#### 18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments approximate their related carrying values, except for the following:

DOLLARS IN MILLIONS	1998		1997	
	CARRY VALUE	FAIR VALUE	CARRY VALUE	FAIR VALUE
9 3/8% Senior Notes	\$(100)	\$(106)	\$(100)	\$(106)
Unsecured credit facility	(30)	(30)	--	--
Note Payable-Pulse				
9 1/2%	(17)	(18)	(17)	(18)
Comet Notes	(10)	(10)	--	--
Interest rate swaps	--	(1)	--	(1)

Fair values of the fixed rate obligations were estimated using discounted cash flow analyses. The fair value of the Company's interest rate swaps (see Note 5) were based on dealer quotes and represent the estimated amount the Company would pay to the counterparty to terminate the swap agreements.

#### 19. SUBSEQUENT EVENT

In January 1999, WABCO completed the private placement of \$75 million of 9 3/8% Senior Notes which mature in 2005. The Senior Notes were issued at a premium resulting in an effective rate of 8.5%. The issuance improved WABCO's financial liquidity by i) using a portion of the proceeds to repay \$30 million of debt associated with the RRE acquisition that bore interest at 9.56%; ii) using a portion of the proceeds to repay variable-rate revolving credit borrowings thereby increasing amounts available under the revolving credit facility; and iii) repay the remaining unpaid principal of \$10.2 million from the Comet acquisition. As result of the issuance, the Company will write-off previously capitalized debt issuance costs of approximately \$.02 per diluted share, in the first quarter of 1999.

## 20. SELECTED QUARTERLY FINANCIAL DATA

DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA	(UNAUDITED)			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
1998				
Net sales.....	\$158,136	\$172,052	\$160,476	\$180,245
Operating income.....	24,755	26,084	25,181	28,646
Income before taxes.....	17,513	18,871	17,493	18,653
Income before extraordinary item.....	10,858	11,700	10,846	11,565
Net income.....	10,858	8,970	10,846	10,980
Diluted earnings per common share before extraordinary item.....	0.42	0.45	0.42	0.45
Diluted earnings per common share.....	0.42	0.34	0.42	0.43
1997				
Net sales.....	\$136,508	\$138,066	\$142,761	\$147,106
Operating income.....	22,542	22,784	22,036	22,613
Income before taxes.....	15,719	15,279	14,486	15,106
Net income.....	9,589	9,320	8,836	9,518
Diluted earnings per common share.....	0.34	0.37	0.35	0.37

In the second quarter of 1998, the Company refinanced its credit agreement and wrote-off deferred financing costs of approximately \$2.7 million, net of tax, or \$.11 per diluted share. In the fourth quarter of 1998, the Company amended its credit agreement and wrote-off deferred financing costs of approximately \$.6 million, net of tax, or \$.02 per diluted share. Such charges were recorded as extraordinary items.

## 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 COMPANY

By /s/ WILLIAM E. KASSLING

-----  
 William E. Kassling, Chief  
 Executive Officer  
 Date: February 18, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities indicated and on the dates indicated.

## SIGNATURE AND TITLE

## DATE

SIGNATURE AND TITLE -----	DATE ----
/s/ WILLIAM E. KASSLING ----- William E. Kassling, Chairman of the Board, and Chief Executive Officer	February 18, 1999
/s/ ROBERT J. BROOKS ----- Robert J. Brooks, Chief Financial Officer, Chief Accounting Officer and Director	February 18, 1999
/s/ JAMES C. HUNTINGTON, JR. ----- James C. Huntington, Director	February 18, 1999
/s/ KIM G. DAVIS ----- Kim G. Davis, Director	February 18, 1999
/s/ EMILIO A. FERNANDEZ ----- Emilio A. Fernandez, Director	February 18, 1999
/s/ JAMES V. NAPIER ----- James V. Napier, Director	February 18, 1999
/s/ JAMES P. KELLEY ----- James P. Kelley, Director	February 18, 1999
/s/ GREGORY T. H. DAVIES ----- Gregory T. H. Davies, President, Chief Operating Officer and Director	February 18, 1999

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS OF  
WESTINGHOUSE AIR BRAKE COMPANY:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements of Westinghouse Air Brake Company included in this Form 10-K, and have issued our report thereon dated February 17, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the index in Item 14(a)2 of this Form 10-K is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania  
February 17, 1999

## SCHEDULE II

WESTINGHOUSE AIR BRAKE COMPANY  
 VALUATION AND QUALIFYING ACCOUNTS  
 FOR EACH OF THE THREE YEARS ENDED DECEMBER 31

DOLLARS IN THOUSANDS	BALANCE AT BEGINNING OF PERIOD	CHARGED/ (CREDITED) TO EXPENSE	CHARGED TO OTHER ACCOUNTS (1)	DEDUCTIONS FROM RESERVES (2)	BALANCE AT END OF PERIOD
-----					
1998					
Accrued warranty.....	\$12,851	\$6,238	\$4,936	\$11,368	\$12,657
Allowance for doubtful accounts.....	2,045	528	712	428	2,857
1997					
Accrued warranty.....	\$ 8,172	\$9,893	\$2,281	\$ 7,495	\$12,851
Allowance for doubtful accounts.....	1,347	812	36	150	2,045
1996					
Accrued warranty.....	\$ 3,655	\$5,459	\$3,802	\$ 4,744	\$ 8,172
Allowance for doubtful accounts.....	831	406	210	100	1,347
-----					

(1) Reserves of acquired companies

(2) Actual disbursements and/or charges

## INDEX TO EXHIBITS

	FILING METHOD -----
3.1 Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995	2
3.2 Amended and Restated By-Laws of the Company, effective March 31, 1997	5
4.1 Form of Indenture between the Company and The Bank of New York with respect to the public offering of \$100,000,000 of 9 3/8% Senior Notes due 2005	2
4.2 Form of Note (included in Exhibit 4.1)	
4.3 First Supplemental Indenture dated as of March 21, 1997 between the Company and The Bank of New York	6
4.4 Indenture dated as of January 12, 1999 by and between the Company and The Bank of New York with respect to the private offering of \$75,000,000 of 9 3/8% Senior Notes due 2005, Series B	1
4.5 Form of Note (included in Exhibit 4.4)	1
9 Second Amended WABCO Voting Trust/Disposition Agreement dated as of December 13, 1995 among the Management Investors (Schedules and Exhibits omitted)	3
10.1 Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust, effective January 31, 1995	2
10.2 ESOP Loan Agreement dated January 31, 1995 between Westinghouse Air Brake Company Employee Stock Ownership Trust ("ESOT") and the Company (Exhibits omitted)	2
10.3 Employee Stock Ownership Trust Agreement dated January 31, 1995 between the Company and U.S. Trust Company of California, N.A.	2
10.4 Pledge Agreement dated January 31, 1995 between ESOT and the Company	2
10.5 Credit Agreement dated as of June 30, 1998, and Amended and Restated as of October 2, 1998 among the Company, various financial institutions, The Chase Manhattan Bank, Chase Manhattan Bank Delaware, and The Bank of New York (Schedules and Exhibits omitted)	1
10.6 Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the RAC Voting Trust ("Voting Trust"), Vestar Equity Partners, L.P., Charlesbank Capital Partners f/k/a Harvard Private Capital Holdings, Inc. ("Charles"), American Industrial Partners Capital Fund II, L.P. ("AIP") and the Company	6
10.7 Common Stock Registration Rights Agreement dated as of January 31, 1995 among the Company, Scandinavian Incentive Holding B.V. ("SIH"), Voting Trust, Vestar Capital, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc., the Pulse Shareholders and ESOT (Schedules and Exhibits omitted)	2
10.8 Indemnification Agreement dated January 31, 1995 between the Company and the Voting Trust trustees	2
10.9 Agreement of Sale and Purchase of the North American Operations of the Railway Products Group, an operating division of American Standard Inc., dated as of 1990 between Rail Acquisition Corp. and American Standard Inc. (only provisions on indemnification are reproduced)	2
10.10 Letter Agreement (undated) between the Company and American Standard Inc. on environmental costs and sharing	2

## FILING METHOD

		FILING METHOD
		-----
10.11	Purchase Agreement dated as of June 17, 1992 among the Company, Schuller International, Inc., Manville Corporation and European Overseas Corporation (only provisions on indemnification are reproduced)	2
10.12	Asset Purchase Agreement dated as of January 23, 1995 among the Company, Pulse Acquisition Corporation, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc. and the Pulse Shareholders (Schedules and Exhibits omitted)	2
10.13	License Agreement dated as of December 31, 1993 between SAB WABCO Holdings B.V. and the Company	2
10.14	Letter Agreement dated as of January 19, 1995 between the Company and Vestar Capital Partners, Inc.	2
10.15	Westinghouse Air Brake Company 1995 Stock Incentive Plan, as amended	1
10.16	Westinghouse Air Brake Company 1995 Non-Employee Directors' Fee and Stock Option Plan	1
10.17	Form of Employment Agreement between William E. Kassling and the Company	2
10.18	Letter Agreement dated as of January 1, 1995 between the Company and Vestar Capital Partners, Inc.	2
10.19	Form of Indemnification Agreement between the Company and Authorized Representatives	2
10.20	Share Purchase Agreement between Futuris Corporation Limited and the Company (Exhibits omitted)	2
10.21	Purchase Agreement dated as of September 19, 1996 by and among Mark IV Industries, Inc., Mark IV PLC, and W&P Holding Corp. (Exhibits and Schedules omitted) (Originally filed as Exhibit No. 2.01)	4
10.22	Purchase Agreement dated as of September 19, 1996 by and among Mark IV Industries Limited and Westinghouse Railway Holdings (Canada) Inc. (Exhibits and Schedules omitted) (Originally filed as Exhibit No. 2.02)	4
10.23	Amendment No. 1 to Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the Voting Trust, Vestar, Charles, AIP and the Company	6
10.24	Common Stock Registration Rights Agreement dated as of March 5, 1997 among the Company, Charles, AIP and the Voting Trust	6
10.25	1998 Employee Stock Purchase Plan	1
10.26	Sale Agreement dated as of August 7, 1998 by and between Rockwell Collins, Inc. and the Company (Schedules and Exhibits omitted) (Originally filed as Exhibit No. 2.01)	7
10.27	Amendment No. 1 dated as of October 5, 1998 to Sale Agreement dated as of August 7, 1998 by and between Rockwell Collins, Inc. and the Company (Originally filed as Exhibit No. 2.02)	7
21	List of subsidiaries of the Company	1
23	Consent of Arthur Andersen LLP	1
27	Financial Data Schedule	1
99	Annual Report on Form 11-K for the year ended December 31, 1998 of the Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust	1

## FILING METHOD

- 
- 1 Filed herewith
  - 2 Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866)
  - 3 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1995
  - 4 Filed as an exhibit to the Company's Current Report on Form 8-K, dated October 3, 1996
  - 5 Filed as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-39159)
  - 6 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1997
  - 7 Filed as an exhibit to the Company's Current Report on Form 8-K, dated October 5, 1998

WESTINGHOUSE AIR BRAKE COMPANY

-----

\$75,000,000

9-3/8% Senior Notes due 2005

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INDENTURE

Dated as of January 12, 1999

THE BANK OF NEW YORK,  
Trustee

## CROSS-REFERENCE TABLE\*

Trust Indenture Act Section -----	Indenture Section -----
310(a)(1).....	7.10
(a)(2).....	7.10
(a)(3).....	N.A.
(a)(4).....	N.A.
(a)(5).....	7.10
(b).....	7.8; 7.10; 10.2
(c).....	N.A.
311(a).....	7.11
(b).....	1.3; 7.11
(c).....	N.A.
312(a).....	2.5
(b).....	10.3
(c).....	10.3
313(a).....	7.6
(b)(1).....	N.A.
(b)(2).....	7.6
(c).....	7.6; 10.2
(d).....	7.6
314(a).....	4.4; 4.5; 10.2
(b).....	N.A.
(c)(1).....	10.4
(c)(2).....	10.4
(c)(3).....	N.A.
(d).....	N.A.
(e).....	10.5
(f).....	N.A.
315(a).....	7.1(2)
(b).....	7.5; 10.2
(c).....	7.1(1)
(d).....	7.1(3)
(e).....	6.11
316(a)(last sentence).....	2.9
(a)(1)(A).....	6.5
(a)(1)(B).....	6.4

-----  
N.A. means not applicable.

\*This Cross-Reference Table is not part of this Indenture.

(a)(2).....	N.A.
(b).....	6.7
317(a)(1).....	6.8
(a)(2).....	6.9
(b).....	2.4
318(a).....	10.1
(c).....	10.1

- -----  
N.A. means not applicable.

\*This Cross-Reference Table is not part of this Indenture.

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BY REFERENCE

Section 1.1.	Definitions.....	1
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EXHIBIT E	FORM OF TRANSFER CERTIFICATE FOR INSTITUTIONAL ACCREDITED INVESTORS
EXHIBIT F	FORM OF CERTIFICATE FOR REGULATION S TRANSFERS

INDENTURE, dated as of January 12, 1999 between Westinghouse Air Brake Company, a Delaware corporation (the "Company"), and The Bank of New York, as trustee, a New York banking corporation (the "Trustee").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company's 9-3/8% Senior Notes due 2005 (the "Securities"):

ARTICLE 1  
DEFINITIONS AND INCORPORATION  
BY REFERENCE

Section 1.1. Definitions.

"Additional Assets" means (i) any property or assets (other than Indebtedness and Capital Stock) in a Related Business, (ii) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary or (iii) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary; provided, however, that any such Restricted Subsidiary described in clause (ii) or (iii) above is primarily engaged in a Related Business.

"Adjusted Consolidated Assets" means at any time the total amount of assets of the Company and its consolidated Restricted Subsidiaries (less applicable depreciation, amortization and other valuation reserves), after deducting therefrom all current liabilities of the Company and its consolidated Restricted Subsidiaries (excluding intercompany items), all as set forth on the consolidated balance sheet of the Company and its consolidated Restricted Subsidiaries as of the end of the most recent fiscal quarter ended at least 45 days prior to the date of determination.

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of the provisions described under Sections 4.13 and 4.14 only, "Affiliate" shall also mean any beneficial owner of shares representing 5% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Voting Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Agent" means any Registrar or Paying Agent or authenticating agent or co-registrar.

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, other than permitted Sale/Leaseback Transactions, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition"), of (i) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary), (ii) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary or (iii) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary (other than, in the case of (i), (ii) and (iii) above, (x) a disposition by a Restricted Subsidiary to the Company or by the Company or a Subsidiary to a Wholly Owned Subsidiary and (y) for purposes of Section 4.13 only, a disposition that constitutes a Restricted Payment permitted by Section 4.11); provided, that the receipt of any insurance proceeds in connection with any casualty shall not be included within the meaning of "Asset Disposition" except to the extent in excess of \$3,000,000 in the aggregate in any fiscal year; provided, however, that to the extent the Company shall have reinvested on the date of any required Excess Proceeds Offer (or certified to the Trustee that it intends to reinvest within 180 days of such Excess Proceeds Offer) any of such excess proceeds in equipment, vehicles or other assets used in the Company's principal lines of business, the resultant Excess Proceeds Offer shall be reduced by the amount so reinvested or to be reinvested.

"Attributable Debt" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Securities, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended).

"Average Life" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing (i) the sum of the products of numbers of years from the date of determination of the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (ii) the sum of all such payments.

"Bankruptcy Law" means Title 11, United States Code or any similar Federal or state law for the relief of debtors.

"Board" or "Board of Directors" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board.

"Business Day" means each day which is not a Legal Holiday.

"Capital Lease Obligations" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock.

"Cash Equivalents" means, at any time, (i) any evidence of Indebtedness with a maturity of 180 days or less from the date of acquisition issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof); (ii) certificates of deposit or acceptances with a maturity of 180 days or less from the date of acquisition of any financial institution that is a member of the Federal Reserve System having combined capital and surplus and undivided profits of not less than \$300,000,000 and a Keefe Bank Watch (or successor) Rating of P-1 (or subsequent equivalent rating) or better; (iii) commercial paper with a maturity of 180 days or less from the date of acquisition issued by a corporation that is not an Affiliate of the Company organized under the laws of any state of the United States or the District of Columbia and rated at least A-1 (or subsequent equivalent rating) by Standard & Poor's Corporation and its successors or at least P-1 (or subsequent equivalent rating) by Moody's Investors Service, Inc. and its successors; and (iv) repurchase agreements and reverse repurchase agreements with terms of more than 30 days relating to obligations of the types described in clause (i) above entered into with a financial institution of the type described in clause (ii) above, provided that the terms of such agreements comply with the guidelines set forth in the Federal Financial Agreements of Depository Institutions With Securities Dealers and Others, as adopted by the Comptroller of the Currency on October 31, 1985.

"Change of Control" means the occurrence of any of the following events: (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than (a) any Designated Person or (b) combination of Designated Persons, is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause (i) such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 35% of the total voting power of the Voting Stock of the Company; (ii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (together with

any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Company then in office; (iii) the Company conveys, transfers or leases all or substantially all its assets to any person or group, in one transaction or a series of transactions other than any conveyance, transfer or lease between the Company and a Wholly Owned Subsidiary; or (iv) the stockholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company.

"Change of Control Payment Date" has the meaning set forth in Section 4.15(b)(3).

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Common Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person's common stock, whether now outstanding or issued after the Existing Securities Issue Date, including, without limitation, all series and classes of such common stock.

"Company" means Westinghouse Air Brake Company, a Delaware corporation, until a successor replaces it in accordance with Article 5, and thereafter means the successor.

"Consolidated Coverage Ratio" as of any date of determination means the ratio of (i) the aggregate amount of EBITDA for the four most recent fiscal quarters for which the Company has filed financial statements with the SEC pursuant to the requirements of the Exchange Act prior to the date of such determination to (ii) Consolidated Interest Expense for such four fiscal quarters; provided, however, that (1) if the Company or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period and the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period, except that, in making such calculation, Indebtedness Incurred under a revolving credit or similar arrangement to finance seasonal fluctuations in working capital needs shall be computed on the average daily balance of such Indebtedness during such period unless such Indebtedness is projected in the reasonable judgment of senior management of the Company to remain outstanding for a period in excess of 12 months from the date of Incurrence of such Indebtedness, in which case, such Indebtedness will be assumed to have been Incurred on the first day of such

coverage period, (2) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition, the EBITDA for such period shall be reduced by an amount equal to the EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to the EBITDA (if negative) directly attributable thereto for such period, and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale), (3) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period and (4) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to clause (2) or (3) above if made by the Company or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition occurred on the first day of such period. For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto, and the amount of Consolidated Interest Expense associated with any Indebtedness incurred in connection therewith, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of the Company. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest of such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Protection Agreement applicable to such Indebtedness if such Interest Rate Protection Agreement has a remaining term in excess of 12 months).

"Consolidated Current Liabilities" as of the date of determination means the aggregate amount of liabilities of the Company and its consolidated Restricted Subsidiaries which may properly be classified as current liabilities (including taxes accrued as estimated), on

a consolidated basis, after eliminating (i) all intercompany items between the Company and any Restricted Subsidiary and between Restricted Subsidiaries and (ii) all current maturities of long-term Indebtedness, all as determined in accordance with GAAP consistently applied.

"Consolidated Interest Expense" means, for any period, the total interest expense of the Company and its consolidated Restricted Subsidiaries, plus (x) to the extent not included in such total interest expense, and to the extent incurred by the Company or its Restricted Subsidiaries, (i) interest expense attributable to capital leases, (ii) amortization of debt discount and debt issuance cost (excluding debt issuance cost relating to the Securities), (iii) capitalized interest, (iv) non-cash interest payments, (v) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing, (vi) net costs under Interest Rate Protection Agreements (including amortization of fees), (vii) Preferred Stock dividends in respect of all Preferred Stock held by Persons other than the Company or a Wholly Owned Subsidiary, (viii) interest incurred in connection with Investments in discontinued operations and (ix) interest actually paid by the Company or any of its consolidated Restricted Subsidiaries under any Guarantee of Indebtedness of any Person and minus (y) to the extent included in such total interest expense, any amortization by the Company and its consolidated Restricted Subsidiaries of (i) capitalized interest or (ii) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing.

"Consolidated Net Income" means, for any period, the net income of the Company and its consolidated Restricted Subsidiaries; provided, however, that there shall not be included in such Consolidated Net Income: (i) any net income of any Person if such Person is not a Restricted Subsidiary, except that (A) subject to the limitations contained in clause (iv) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (iii) below) and (B) the Company's equity in a net loss of any Person (other than an Unrestricted Subsidiary) for such period shall be included in determining such Consolidated Net Income; (ii) any net income (or loss) of any Person acquired by the Company or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition; (iii) the net income of any Restricted Subsidiary to the extent that such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions, directly or indirectly, to the Company, except that the Company's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income; (iv) any gain (but not loss) realized upon the sale or other disposition of any property, plant or equipment of the Company or its Consolidated Restricted Subsidiaries (including pursuant to any sale-and-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and

any gain (but not loss) realized upon the sale or other disposition of any Capital Stock of any Person; (v) extraordinary gains or losses; and (vi) the cumulative effect of a change in accounting principles.

"Consolidated Net Tangible Assets" as of any date of determination means the total amount of assets (less accumulated depreciation and amortization, allowances for doubtful receivables, other applicable reserves and other properly deductible items) which would appear on a consolidated balance sheet of the Company and its consolidated Restricted Subsidiaries, determined on a consolidated basis in accordance with GAAP, and after giving effect to purchase accounting and after deducting therefrom, to the extent otherwise included, the amounts of: (i) Consolidated Current Liabilities; (ii) minority interests in consolidated Subsidiaries held by Persons other than the Company or a Restricted Subsidiary; (iii) excess of cost over fair value of assets of businesses acquired, as determined in good faith by the Board of Directors; (iv) any revaluation or other write-up in book value of assets subsequent to the Existing Securities Issue Date as a result of a change in the method of valuation in accordance with GAAP consistently applied; (v) unamortized debt discount and expenses and other unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, licenses, organization or developmental expenses and other intangible items (if included in total assets); (vi) treasury stock (if included in total assets); (vii) Unallocated ESOP Shares; and (viii) cash set apart and held in a sinking or other analogous fund established for the purpose of redemption or other retirement of Capital Stock to the extent such obligation is not reflected in Consolidated Current Liabilities.

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of the Company and its consolidated Restricted Subsidiaries, determined on a consolidated basis in accordance with GAAP, as of the end of the most recent fiscal quarter for which the Company has filed financial statements with the SEC pursuant to the requirements of the Exchange Act, prior to the taking of any action for the purpose of which the determination is being made, as (i) the par or stated value of all outstanding Capital Stock of the Company plus (ii) paid-in capital or capital surplus relating to such Capital Stock plus (iii) any retained earnings or earned surplus less (to the extent otherwise included) (A) any accumulated deficit, (B) any amounts attributable to Disqualified Stock, (C) Unallocated ESOP Shares, (D) treasury stock and (E) any cumulative translation adjustment.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and the terms "Controlling" and "Controlled" shall have meanings correlative thereto.

"Credit Agreement" means the Credit Agreement dated as of January 31, 1995, as amended and restated as of February 15, 1995, among the Company, the financial institutions named therein, Chemical Bank, as Swingline Lender, Issuing Bank, Administrative Agent and Collateral Agent, Chemical Bank Delaware, as Issuing Bank, The Bank of New York and Credit Suisse, as Co-Administrative Agents, and The Bank of New York, as Documentation Agent, as the same may be amended or modified from time to time, and any agreement evidencing any refunding, replacement, refinancing or renewal, in whole or in part, of the Credit Agreement.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Depository" means, with respect to the Securities issued in the form of one or more Global Securities, The Depository Trust Company or another Person designated as Depository by the Company, which must be a clearing agency registered under the Exchange Act.

"Designated Person" means Incentive AB, a corporation organized under the laws of the Kingdom of Sweden, or any of its subsidiaries, Vestar or Vestar Capital or any of their respective Controlled Affiliates, the ESOP, the Pulse Shareholders and any of their respective Affiliates, the Voting Trust and any person or entity holding a beneficial interest in the Voting Trust or the Capital Stock of the Company held by the Voting Trust on the Existing Securities Issue Date (or, in the case of any such person or entity, their permitted transferees).

"Disqualified Stock" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event (i) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, (ii) is convertible or exchangeable for Indebtedness or Disqualified Stock or (iii) is redeemable at the option of the holder thereof, in whole or in part, in each case on or prior to the first anniversary of the Stated Maturity of the Securities.

"EBITDA" for any period means Consolidated Net Income plus the following to the extent deducted in calculating such Consolidated Net Income: (a) all income tax expense of the Company, (b) Consolidated Interest Expense, (c) depreciation expense, (d) amortization expense and (e) other noncash charges (including any charges resulting from the write-up of inventory) deducted in determining Consolidated Net Income (and not already excluded from the definition of the term "Consolidated Net Income"), in each case for such period.

"ESOP" means collectively, the Westinghouse Air Brake Company Employee Stock Ownership Plan effective January 1, 1995 and the Westinghouse Air Brake Company Employee Stock Ownership Trust established effective January 1, 1995 pursuant to the Westinghouse Air Brake Company Employee Stock Ownership Trust Agreement between the Company and U.S. Trust Company of California, N.A., as such plan (the "Plan") and trust (the "Trust") may be amended, modified or supplemented from time to time.

"ESOP Loan" means the loan made by the Company to the ESOP in an aggregate principal amount equal to \$140,040,000 pursuant to the ESOP Loan Agreement, dated as of January 31, 1995, between the Company and the Trust, as such loan may be amended, modified, extended, renewed, replaced or refinanced from time to time without increase in such aggregate principal amount.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Securities" means the 9-3/8% Senior Notes due 2005, Series B2, to be issued in exchange for the Initial Securities pursuant to the Registration Rights Agreement.

"Existing Securities" means the \$100 million aggregate principal amount of the Company's 9-3/8% Senior Notes due 2005 issued pursuant to the Existing Securities Indenture.

"Existing Securities Indenture" means the Indenture dated as of June 20, 1995 between the Company and The Bank of New York, as Trustee.

"Existing Securities Issue Date" means June 20, 1995.

"Fair Market Value" means, with respect to any asset, the price which could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing buyer, neither of which is under compulsion to complete the transaction. The Fair Market Value of any asset or assets shall be determined by the Board of Directors of the Company, acting in good faith, and shall be evidenced by a resolution of such Board of Directors delivered to the Trustee.

"Final Maturity Date" means June 15, 2005.

"Foreign Subsidiary" means a corporation that is not incorporated under the laws of the United States or any political subdivision thereof and whose business is primarily conducted outside of the United States.

"Fully Traded Common Stock" means common stock issued by any corporation whose common stock is listed on either The New York Stock Exchange or The American Stock Exchange or included for trading privileges in the National Market System of the National Association of Securities Dealers Automated Quotation System; provided, however, that (a) either such common stock is freely tradeable under the Securities Act upon issuance or the holder thereof has contractual registration rights that will permit the sale of such common stock pursuant to an effective registration statement not later than nine months after issuance to the Company or one of its Subsidiaries and (b) such common stock is also so listed or included for trading privileges.

"GAAP" means generally accepted accounting principles in the United States of America as in effect as of the date of this Indenture, including those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statement by such other entity as approved by a significant segment of the accounting profession.

"Global Securities" means one or more 144A Global Securities, Regulation S Global Securities and IAI Global Securities.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, or take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" shall mean any Person Guaranteeing any obligation.

"Holder," "Holder of Securities," "Securityholder" or other similar terms, means the Person in whose name a particular Security shall be registered on the books of the Registrar kept for that purpose in accordance with the terms hereof, and the word "majority," used in connection with the terms "Holder," "Holder of Securities," or other similar terms, shall signify the "majority in principal amount" whether or not so expressed.

"IAI Global Security" means a permanent global security in registered form representing the aggregate principal amount of Securities sold to Institutional Accredited Investors.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. The term "Incurance" when used as a noun shall have a correlative meaning.

"Indebtedness" of any Person means, without duplication, (i) the principal of and premium (if any) in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (ii) all Capital Lease Obligations of such Person and all Attributable Debt in respect of Sale/Leaseback Transactions entered into by such Person; (iii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business); (iv) all obligations of such Person for reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in (i) through (iii) above) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the third Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit); (v) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock (but excluding, in each case, any accrued dividends); (vi) all obligations of the types referred to in clauses (i) through (v) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as Guarantor or otherwise; and (vii) all obligations of the type referred to in clauses (i) through (vi) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property and assets or the amount of the obligation so secured.

"Indenture" means this Indenture, as amended from time to time.

"Initial Purchaser" means Chase Securities Inc.

"Initial Securities" means the 9-3/8% Senior Notes due 2005, Series B1, of the Company.

"Institutional Accredited Investor" means an institution that is an "accredited investor" as that term is defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act.

"Interest Payment Date" means each semiannual interest payment date on June 15 and December 15 of each year, commencing June 15, 1999.

"Interest Rate Protection Agreement" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement designed to protect the Company or any Restricted Subsidiary against fluctuations in interest rates.

"Interest Record Date" for the interest payable on any Interest Payment Date (except a date for payment of defaulted interest) means the June 1 or December 1 (whether or not a Business Day), as the case may be, immediately preceding such Interest Payment Date.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of such Person) or other extension of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. For purposes of the definition of "Unrestricted Subsidiary," the definition of "Restricted Payment" and Section 4.11, (i) "Investment" shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary in an amount (if positive) equal to (x) the Company's "Investment" in such Subsidiary at the time of such redesignation less (y) the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of such Subsidiary at the time of such redesignation; and (ii) any property transferred to or from an Unrestricted Subsidiary shall be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

"Issue Date" means the original issue date of the Securities, January 12, 1999.

"Joint Venture" means a joint venture, partnership or other similar arrangement, whether in corporate, partnership or other legal form; provided that, as to any such arrangement in corporate form, such corporation shall not as to any Person of which such corporation is a Subsidiary, be considered to be a Joint Venture to which such Person is a party.

"Legal Holiday" means Saturday, Sunday or a day on which banking institutions in New York, New York or at a place of payment are authorized or obligated by law, regulation or executive order to remain closed.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Net Available Cash" from an Asset Disposition means cash payments, Cash Equivalents and Fully Traded Common Stock received therefrom (including any cash payments, Cash Equivalents and Fully Traded Common Stock received by way of deferred payment of

principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other noncash form) in each case net of all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition, and in each case net of all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition, and net of all distributions and other payments required to be made to minority interestholders in Subsidiaries or joint ventures as a result of such Asset Disposition.

"Net Cash Proceeds," with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Officer" means the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, the Treasurer, Controller, Secretary or any Vice President of the Company or any other obligor upon the Securities.

"Officers' Certificate" means a certificate signed by the Chairman of the Board of Directors, the Vice Chairman, the President or any Vice President and by the Chief Financial Officer, Treasurer or the Secretary of such Person which shall comply with applicable provisions of Sections 10.4 and 10.5 hereof.

"144A Global Security" means a permanent global security in registered form representing the aggregate principal amount of Securities sold in reliance on Rule 144A.

"Opinion of Counsel" means an opinion in writing signed by legal counsel who is reasonably acceptable to the Trustee. Such counsel may be an employee of or counsel to the Company, any Subsidiary of the Company or to the Trustee.

"Paying Agent" has the meaning set forth in Section 2.3.

"Permitted Investments" means any of the following: (i) any investment in direct obligations of the United States of America or any agency thereof or obligations guaranteed by the United States of America or any agency thereof, (ii) investments in time deposit accounts,

certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States, and, in the case of investments in excess of \$100,000 in any one bank or trust company, which bank or trust company has capital, surplus and undivided profits aggregating in excess of \$50,000,000 (or the foreign currency equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money-market fund sponsored by a registered broker dealer or mutual fund distributor, (iii) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (i) above entered into with a bank meeting the qualifications described in clause (ii) above, (iv) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's Investors Service, Inc. or "A-1" (or higher) according to Standard & Poor's Corporation, and (v) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by Standard & Poor's Corporation or "A" by Moody's Investors Service, Inc.

"Permitted Liens" means, with respect to any Person, (a) Liens existing on the date of this Indenture, including Liens securing borrowings up to the amount of the commitments under the Credit Agreement on the Existing Securities Issue Date and other obligations under or expressly permitted by the Credit Agreement; (b) Liens subsequently created, whether under the Credit Agreement or otherwise; provided that such Liens, together with any Liens under clause (a) that secure Indebtedness under the Credit Agreement, do not secure Indebtedness with a principal amount that is greater than the amount of the commitments under the Credit Agreement on the Existing Securities Issue Date except to the extent such Liens are permitted under any of clauses (c) through (t) of this definition of Permitted Liens; (c) Liens securing borrowings of up to \$60 million permitted pursuant to Section 4.9(b)(vi); (d) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into such Person or a Subsidiary of such Person; provided, however, that the Liens may not extend to any other property owned by such Person or any of its Subsidiaries; (e) Liens securing Purchase Money Indebtedness; (f) additional Liens for any purpose of up to 15% of the Company's Consolidated Net Tangible Assets; (g) pledges or deposits by such Person under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure

public or statutory obligations of such Person or deposits of cash or United States government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business; (h) Liens imposed by law, such as carriers', warehousemen's and mechanics' Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review; (i) Liens for property taxes not yet subject to penalties for non-payment or which are being contested in good faith and by appropriate proceedings; (j) Liens in favor of issuers of surety bonds or letters of credit issued pursuant to the request of and for the account of such Person in the ordinary course of its business; provided, however, that such letters of credit (and reimbursement obligations thereunder) do not constitute Indebtedness; (k) survey exceptions, encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with Indebtedness and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person; (l) Liens securing Indebtedness incurred to finance the construction, purchase or lease of, or repairs, improvements or additions to, property of such Person; provided, however, that the Lien may not extend to any other property owned by such Person or any of its Restricted Subsidiaries at the time the Lien is Incurred, and the Indebtedness secured by the Lien may not be Incurred more than 180 days after the later of the acquisition, completion of construction, repair, improvement, addition or commencement of full operation of the property subject to the Lien; (m) Liens on inventory and receivables and the products and proceeds thereof; (n) Liens on property or shares of stock of another Person at the time such other Person becomes a Subsidiary of such Person; provided, however, that any such Lien may not extend to any other property owned by such Person or any of its Restricted Subsidiaries; (o) Liens securing Indebtedness or other obligations of a Subsidiary of such Person owing to such Person or a Wholly Owned Subsidiary of such Person (other than an Unrestricted Subsidiary); (p) Liens Incurred by another Person on assets that are the subject of a Capital Lease Obligation to which such Person or a Subsidiary of such Person is a party; provided, however, that any such Lien may not secure Indebtedness of such Person or any of its Restricted Subsidiaries (except by virtue of clause (vii) of the definition of "Indebtedness") and may not extend to any other property owned by such Person or any Subsidiary of such Person; (q) Liens securing Interest Rate Protection Agreements so long as the related Indebtedness is, and is permitted to be under this Indenture, secured by a Lien on the same property securing the Interest Rate Protection Agreement; (r) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in part, of any Indebtedness secured by any Lien referred to in the foregoing clauses (a), (c), (l) and (n); provided, however, that (x) such new Lien shall be limited to all or part of the same property that secured the original Lien (plus

improvements on such property) and (y) the Indebtedness secured by such Lien at such time is not increased (other than by an amount necessary to pay fees and expenses, including premiums, related to the Refinancing of such Indebtedness); (s) Liens Incurred in connection with any Sale/Leaseback Transaction permitted pursuant to Section 4.17 securing borrowings of up to \$10 million; and (t) Liens with respect to any Indebtedness Incurred by any Restricted Subsidiary pursuant to clause (7) of Section 4.10; provided that such Lien shall only be a "Permitted Lien" so long as such Indebtedness requires a restriction on distributions referred to under Section 4.12(iv)(7).

"Person" means an individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof or any other entity.

"Physical Securities" means one or more certificated Securities in registered form.

"Preferred Stock," as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

"Principal" of a Security means the principal of the Security plus the premium, if any, payable on the Security which is due or overdue or is to become due at the relevant time.

"Private Exchange Securities" has the meaning provided in Section 1 of the Registration Rights Agreement.

"Private Placement Legend" means the legend initially set forth on the Initial Securities in the form set forth on Exhibit A hereto.

"Pulse Shareholders" means, collectively, Emilio A. Fernandez, Jr., Emilio A. Fernandez, Jr., as custodian for Eric A. Fernandez, Ofelia B. Fernandez, Emily A. Fernandez, Angel P. Bezos, Rayssa C. Bezos, as custodian for Michelle R. Bezos, Jennifer A. Bezos, David R. Bezos, Jose M. Llosa and Ronald L. Woltz.

"Purchase Agreement" means the Purchase Agreement dated as of January 7, 1999, by and among the Company and the Initial Purchaser.

"Purchase Money Indebtedness" means Indebtedness (i) consisting of the deferred purchase price of property, conditional sale obligations, obligations under any title retention agreement and other purchase money obligations, including borrowings, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being

financed, and (ii) Incurred to finance the acquisition or construction by any Subsidiary of such asset, including additions and improvements; provided, however, that any Lien arising in connection with any such Indebtedness shall be limited to the specified asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached; and provided, further, however, that the principal amount of such Indebtedness does not exceed the lesser of 85% of the cost or 85% of the fair market value of the asset being financed (such fair market value as determined in good faith by the Board of Directors, as evidenced by a resolution).

"Qualified Institutional Buyer" or "QIB" means a "qualified institutional buyer" as that term is defined in Rule 144A under the Securities Act.

"Redemption Date," when used with respect to any Security to be redeemed, means the date fixed for such redemption pursuant to this Indenture.

"Redemption Date," when used with respect to any Security to be redeemed, means the date fixed by the Company for such redemption pursuant to this Indenture and the Securities.

"Redemption Price" means the amount payable for the redemption or repurchase of any Security on the Redemption Date, and shall always include interest accrued and unpaid to the Redemption Date, unless otherwise specifically provided.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue Indebtedness in exchange or replacement for, such Indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness that Refinances any Indebtedness of the Company or any Restricted Subsidiary existing on the date of the Existing Securities Indenture or Incurred in compliance with this Indenture; provided, however, that (i) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced, (ii) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced, (iii) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; provided further, however, that Refinancing Indebtedness shall not include (x) Indebtedness of a Subsidiary that refinances Indebtedness of the Company or (y) Indebtedness of the Company or a Restricted

Subsidiary that refinances Indebtedness of an Unrestricted Subsidiary and (iv) such Refinancing Indebtedness is subordinated in right of payment to the Securities at least to the extent that the Indebtedness to be Refinanced is subordinated in right of payment to the Securities.

"Registrar" has the meaning set forth in Section 2.3.

"Registration Rights Agreement" means the Exchange and Registration Rights Agreement dated as of January 12, 1999, by and among the Company and the Initial Purchaser.

"Regulation S" means Regulation S under the Securities Act.

"Regulation S Global Security" means the Regulation S Temporary Global Security and the Regulation S Permanent Global Security.

"Regulation S Permanent Global Security" means a permanent global security in registered form representing the outstanding principal amount of the Regulation S Temporary Global Security upon expiration of the Restricted Period.

"Regulation S Temporary Global Security" means a temporary global security in registered form representing the aggregate principal amount of Securities sold in reliance on Regulation S.

"Related Business" means any business related, ancillary or complementary to the businesses of the Company and the Restricted Subsidiaries on the date of the Existing Securities Indenture.

"Responsible Officer," when used with respect to the Trustee, shall mean any officer in the corporate trust department of the Trustee or any officer of the Trustee customarily performing functions similar to those performed by any officer in the corporate trust department of the Trustee with respect to a particular corporate matter or any other officer to whom any corporate trust matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Payment" with respect to any Person means (i) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) or rights to acquire its Capital Stock (other than Disqualified Stock) and dividends or distributions payable solely to the Company or a Restricted Subsidiary, and other than pro rata dividends or other distributions made by a Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation)), (ii) the purchase,

redemption or other acquisition or retirement for value of any Capital Stock of the Company or of any Restricted Subsidiary held by any Person or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than a Wholly Owned Subsidiary), including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company that is not Disqualified Stock), (iii) any principal payment on, or purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Indebtedness (other than the purchase, repurchase or other acquisition of Indebtedness purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition) or (iv) the making of any Investment in any Person (other than (x) a Permitted Investment or (y) any Investment made to acquire a Restricted Subsidiary).

"Restricted Period" means the "distribution compliance period" applicable to the Company described in Regulation S.

"Restricted Security" has the meaning set forth in Rule 144(a)(3) under the Securities Act; provided, however, that the Trustee shall be entitled to request and conclusively rely upon an Opinion of Counsel with respect to whether any Security is a Restricted Security.

"Restricted Subsidiary" means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

"Rule 144A" means Rule 144A under the Securities Act.

"Rule 144A Global Security" means a permanent global security in registered form representing the outstanding principal amount of Securities sold in reliance on Rule 144A.

"Sale/Leaseback Transaction" means an arrangement relating to property now owned or hereafter acquired whereby the Company or a Restricted Subsidiary transfers such property to a Person and leases it back from such Person, other than leases for a term of not more than 12 months or between the Company and a Wholly Owned Subsidiary or between Wholly Owned Subsidiaries.

"SEC" means the Securities and Exchange Commission.

"Securities" shall have the meaning set forth in the recitals of this Indenture and more particularly shall mean any Securities issued under this Indenture and means, collectively, the Initial Securities, the Private Exchange Securities and the Unrestricted Securities treated as a single class of securities, as amended or supplemented from time to time in accordance with the terms of this Indenture.

"Securities Act" means the Securities Act of 1933, as amended.

"Senior Indebtedness" means (i) Indebtedness of the Company, whether outstanding on the date of the Existing Securities Indenture or thereafter Incurred and (ii) accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company to the extent post-filing interest is allowed in such proceeding) in respect of (A) indebtedness of the Company for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which the Company is responsible or liable unless, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are subordinate in right of payment to the Securities; provided, however, that Senior Indebtedness shall not include (1) any obligation of the Company to any Subsidiary, (2) any liability for federal, state, local or other taxes owed or owing by the Company, (3) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities), (4) any Indebtedness of the Company (and any accrued and unpaid interest in respect thereof) which is expressly subordinate in right of payment to any other Indebtedness or other obligation of the Company or (5) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of this Indenture.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Subordinated Indebtedness" means any Indebtedness of the Company (whether outstanding on the Existing Securities Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Securities pursuant to a written agreement to that effect.

"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person, (ii) such Person and one or more Subsidiaries of such Person or (iii) one or more Subsidiaries of such Person.

"TIA" or "Trust Indenture Act" means the Trust Indenture Act of 1939, as amended (15 U.S.C. Sections 77aaa-77bbb), as in effect on the date on which this Indenture is qualified under the TIA, except as provided in Section 9.3 hereof; provided, however, that in the event the Trust Indenture Act is amended after such date, "Trust Indenture Act" and "TIA" mean, to the extent required by such amendment, the Trust Indenture Act as so amended.

"Trustee" means the party named as such in this Indenture until a successor replaces it in accordance with the applicable provisions hereof, and thereafter means such successor serving hereunder.

"Unallocated ESOP Shares" means shares of Common Stock of the Company which are held by the ESOP but have not yet been allocated to participants' accounts.

"Unrestricted Securities" means one or more Securities that do not and are not required to bear the Private Placement Legend in the form set forth in Exhibit A hereto, including, without limitation, the Exchange Securities and any Securities registered under the Securities Act pursuant to and in accordance with the Registration Rights Agreement.

"Unrestricted Subsidiary" means (i) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below and (ii) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; provided, however, that either (A) the Subsidiary to be so designated has total assets of \$1,000 or less or (B) if such Subsidiary has assets greater than \$1,000, such designation would be permitted under Section 4.11. The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that immediately after giving effect to such designation (x) the Company could Incur \$1.00 of additional Indebtedness under Section 4.9(a) and (y) no Default shall have occurred and be continuing. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the board resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

"Vestar" means Vestar WABCO Investors, L.P., a Delaware limited partnership.

"Vestar Capital" means Vestar Capital Partners, Inc., a Delaware corporation.

"Voting Stock" of a corporation means all classes of Capital Stock of such corporation then outstanding and normally entitled to vote in the election of directors.

"Voting Trust" shall mean the RAC Voting Trust, established pursuant to the RAC Voting Trust/Disposition Agreement, dated as of January 9, 1990, as amended as of February 28, 1990, March 9, 1990 and amended pursuant to that certain Amended WABCO Voting Trust/Disposition Agreement dated as of January 31, 1995, by and between the individuals named therein and the voting trustees (as such agreement may be further amended or modified from time to time).

"Wholly Owned Subsidiary" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares and shares held by other Persons to the extent such shares are required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary) is owned by the Company or one or more Wholly Owned Subsidiaries.

#### Section 1.2. Other Definitions.

Term -----	Defined in Section -----
"Affiliate Transaction".....	4.14(a)
"covenant defeasance".....	8.1(c)
"Custodian".....	6.1
"Excess Net Available Cash".....	4.13(a)
"Excess Proceeds".....	4.13(a)
"Excess Proceeds Offer".....	4.13(a)
"Excess Proceeds Payment".....	4.13(a)
"Excess Proceeds Payment Date".....	4.13(c)
"Event of Default".....	6.1
"legal defeasance".....	8.1(b)
"Paying Agent".....	2.3
"Registrar".....	2.3
"Successor Company".....	5.1

#### Section 1.3. Incorporation by Reference of Trust Indenture

Act.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture.

The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC;

"indenture securities" means the Securities;

"indenture security holder" means a Securityholder;

"indenture to be qualified" means this Indenture;

"indenture trustee" or "institutional trustee" means the Trustee; and

"obligor" on the Securities means the Company, any other obligor upon the Securities or any successor obligor upon the Securities.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule under the TIA have the meaning so assigned to them.

In addition, for purposes of Sections 311(b)(4) and 311(b)(6) of the TIA, the following terms shall have the following meanings:

"cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers acceptances and payable upon demand.

"self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacture, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

#### Section 1.4. Rules of Construction.

Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(3) "or" is not exclusive;

(4) "including" means including without limitation;

(5) words in the singular include the plural, and in the plural include the singular;

(6) unsecured Indebtedness shall not be deemed to be subordinate or junior to secured Indebtedness merely by virtue of its nature as unsecured Indebtedness; and

(7) provisions apply to successive events and transactions.

## ARTICLE 2 THE SECURITIES

### Section 2.1. Form and Dating.

The Initial Securities and the Trustee's certificate of authentication thereof shall be substantially in the form of Exhibit A hereto, which is hereby incorporated in and expressly made a part of this Indenture. The Exchange Securities and the Trustee's certificate of authentication thereof shall be substantially in the form of Exhibit B hereto, which is hereby incorporated in and expressly made a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage. The Company and the Trustee shall approve the form of the Securities and any notation, legend or endorsement on them. Each Security shall be dated the date of its issuance and shall show the date of its authentication.

Securities offered and sold in reliance on Rule 144A shall be issued initially in the form of one or more Rule 144A Global Securities and Securities offered and sold in reliance on Regulation S shall be issued initially in the form of one or more Regulation S Temporary Global Securities, each substantially in the form set forth in Exhibit A hereto, deposited with the Trustee, as custodian for the Depository, duly executed by the Company and authenticated by the Trustee as hereinafter provided and shall bear the legend set forth in Exhibit C hereto. The aggregate principal amount of the Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depository, as hereinafter provided. Securities issued in exchange for interests in a Global Security pursuant to Section 2.17 may be issued in the form of Physical Securities in substantially the form set forth in Exhibit A hereto.

The Restricted Period for the Regulation S Temporary Global Security shall be terminated upon the receipt by the Trustee of (i) a written certificate from the Depository, together with copies of certificates from the Euroclear System and Cedel Bank certifying that

they have received certification of non-United States beneficial ownership of 100% of the aggregate principal amount of the Regulation S Temporary Global Security (except to the extent of any beneficial owners thereof who acquired an interest therein during the Restricted Period pursuant to another exemption from registration under the Securities Act and who will take delivery of a beneficial ownership interest in a 144A Global Security or an IAI Global Security) and (ii) receipt of an Opinion of Counsel. Following the termination of the Restricted Period, beneficial interests in the Regulation S Temporary Global Security shall be exchanged for beneficial interests in the Regulation S Permanent Global Security. Simultaneously with the authentication of the Regulation S Permanent Global Security, the Trustee shall cancel the Regulation S Temporary Global Security. The aggregate principal amount of the Regulation S Temporary Global Security and the Regulation S Permanent Global Security may from time to time be increased or decreased by adjustments made on the records of the Trustee and the Depository or its nominee, as the case may be, in connection with transfers of interest as hereinafter provided.

The provisions of the "Operating Procedures of the Euroclear System" and "Terms and Conditions Governing Use of Euroclear" and the "General Terms and Conditions of Cedel Bank" and "Customer Handbook" of Cedel Bank shall be applicable to transfers of beneficial interests in the Regulation S Temporary Global Security and the Regulation S Permanent Global Security that are held by participants through Euroclear or Cedel Bank.

#### Section 2.2. Execution and Authentication.

Two Officers shall sign the Securities for the Company by manual or facsimile signature. The Company's seal shall be reproduced on the Securities.

If an Officer whose signature is on a Security no longer holds that office at the time the Security is authenticated, the Security shall nevertheless be valid.

A Security shall not be valid until authenticated by the manual signature of the Trustee. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture. The form of Trustee's certificate of authentication to be borne by the Securities shall be substantially as set forth in Exhibits A and B hereto.

The Trustee shall from time to time authenticate Securities for original issue in an aggregate principal amount not to exceed \$1.00 upon a written order of the Company signed by two Officers. Such order shall specify the amount of the Securities to be authenticated and the date on which the original issue of the Securities is to be authenticated. The aggregate principal amount of Securities outstanding at any time may not exceed \$1.00 except as provided in Section 2.7.

The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company or an Affiliate. The Company agrees to compensate any authenticating agent for its services hereunder.

#### Section 2.3. Registrar and Paying Agent.

The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange ("Registrar") and an office or agency including the office or agency maintained by the Company pursuant to Section 4.2 where Securities may be presented for payment ("Paying Agent"). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may appoint one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent. The Company may change any Paying Agent, Registrar or co-registrar without notice to any Securityholder. The Company shall notify the Trustee of the name and address of any Agent not a party to this Indenture. If the Company fails to appoint or maintain another entity as Registrar or Paying Agent, the Trustee shall act as such. The Company or any of its Subsidiaries may act as Paying Agent, Registrar or co-registrar.

The Company initially appoints the Trustee as Registrar and Paying Agent in connection with the Securities.

#### Section 2.4. Paying Agent to Hold Money in Trust.

The Company (or any other obligor upon the Securities) shall require each Paying Agent other than the Trustee to agree in writing that the Paying Agent will hold in trust for the benefit of Securityholders or the Trustee all money held by the Paying Agent for the payment of principal or interest on the Securities, and will notify the Trustee of any Default by the Company (or any other obligor upon the Securities) in making any such payment. While any such Default continues, the Trustee may require a Paying Agent to pay all money held by it to the Trustee. The Company (or any other obligor upon the Securities) at any time may require a Paying Agent to pay all money held by it to the Trustee. Upon payment over to the Trustee of all money that shall have been delivered by the Company to the Paying Agent, the Paying Agent shall have no further liability for the money. If the Company, a Subsidiary or any other obligor upon the Securities acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Securityholders all money held by it as Paying Agent.

#### Section 2.5. Securityholder Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders and shall otherwise comply with TIA Section 312(a). If the Trustee is not the Registrar, the Company (or any other obligor upon the Securities) shall furnish to the Trustee at least seven Business Days before each interest payment date (and in all events at intervals of not more than six months) and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders, and the Company shall otherwise comply with TIA Section 312(a).

#### Section 2.6. Transfer and Exchange.

The Securities will be issued in fully registered form and will be transferable only upon the surrender of the Securities being transferred for registration of transfer. Where Securities are presented to the Registrar or a co-registrar with a request to register, transfer or exchange them for an equal principal amount of Securities of other denominations, the Registrar shall register the transfer or make the exchange if its requirements for such transactions are met; provided that any Security presented or surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by a written instruction of transfer in form satisfactory to the Registrar and the Trustee duly executed by the Holder thereof or his attorney duly authorized in writing. To permit registrations of transfer and exchanges in compliance with this Indenture, the Company shall issue and the Trustee shall authenticate Securities at the Registrar's request.

The Company shall not be required (i) to issue, to register the transfer of or to exchange Securities during a period beginning at the opening of business on a Business Day 15 days before the day of any selection of Securities for redemption under Section 3.2 hereof and ending at the close of business on the day of selection, (ii) to register the transfer of or exchange of a Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part or (iii) to register the transfer or exchange of a Security between the record date and the next succeeding interest payment date.

No service charge shall be made for any registration of transfer or exchange (except as otherwise expressly permitted herein), but the Company may require payment of a sum sufficient to cover any tax, assessment or other governmental charge payable in connection therewith (other than such transfer tax or similar governmental charge payable upon exchanges pursuant to Section 2.10, 3.6 or 9.5 hereof).

Any Holder of a beneficial interest in a Global Security shall, by acceptance of such beneficial interest in a Global Security, agree that transfers of beneficial interests in such Global Security may be effected only through a book-entry system maintained by the Depository (or its agent), and that ownership of a beneficial interest in a Global Security shall be required to be reflected in a book entry.

#### Section 2.7. Replacement Securities.

If any mutilated Security is surrendered to the Trustee, or the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, the Company shall issue and the Trustee, upon the written order of the Company signed by two Officers, shall authenticate a replacement Security if the Trustee's requirements are met. If required by the Trustee or the Company, an indemnity bond must be supplied by the Holder that is sufficient in the judgment of the Trustee and the Company to protect the Company, the Trustee, any Agent or any authenticating agent from any loss which any of them may suffer if a Security is replaced. The Company may charge for its expenses in replacing a Security.

Every replacement Security is an additional obligation of the Company and entitled to the benefit of this Indenture.

#### Section 2.8. Outstanding Securities.

The Securities outstanding at any time are all the Securities authenticated by the Trustee except for those cancelled by it, those delivered to it for cancellation and those described in this Section as not outstanding.

If a Security is replaced pursuant to Section 2.7, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a redemption date or maturity date money sufficient to pay all principal and interest payable on that date with respect to the Securities (or portions thereof) to be redeemed or maturing, as the case may be, and is not prohibited from paying such money to the Holders thereof pursuant to the terms of this Indenture, then on and after that date such Securities (or portions thereof) cease to be outstanding and interest on them ceases to accrue.

A Security does not cease to be outstanding because the Company or an Affiliate holds the Security, except as otherwise provided in Section 2.9 hereof.

#### Section 2.9. Treasury Securities.

In determining whether the Holders of the required principal amount of Securities have concurred in any direction, waiver or consent, Securities owned by the Company or a Subsidiary thereof shall be considered as though not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Securities which the Trustee knows are so owned shall be so disregarded.

#### Section 2.10. Temporary Securities.

Until definitive Securities are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee, upon receipt of the written order of the Company signed by two Officers, shall authenticate definitive Securities in exchange for temporary Securities. Until such exchange, temporary Securities shall be entitled to the same rights, benefits and privileges as definitive Securities.

#### Section 2.11. Cancellation.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar and Paying Agent shall forward to the Trustee any Securities surrendered to them for registration of transfer, exchange or payment. The Trustee shall cancel all Securities surrendered for registration of transfer, exchange, payment, replacement or cancellation. The Company may not issue new Securities to replace Securities that it has paid or that have been delivered to the Trustee for cancellation. All cancelled Securities held by the Trustee shall be returned promptly to the Company.

#### Section 2.12. Defaulted Interest.

If the Company defaults in a payment of interest on the Securities, it shall pay the defaulted interest in any lawful manner plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Securityholders on a subsequent special record date, in each case at the rate provided in the Securities. The Company shall, with the consent of the Trustee, fix each such special record date and payment date. At least 15 days before the special record date, the Company (or the Trustee, in the name of and at the expense of the Company) shall mail to Securityholders a notice that states the special record date, the related payment date and the amount of such interest to be paid.

#### Section 2.13. Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer and subject to Section 2.12, the Company, the Trustee, any Paying Agent, any co-registrar and any Registrar may deem and treat the person in whose name any Security shall be registered upon the register of Securities kept by the Registrar as the absolute owner of such Security (whether or not such

Security shall be overdue and notwithstanding any notation of the ownership or other writing thereon made by anyone other than the Company, any co-registrar and any Registrar) for the purpose of receiving payments of principal of or interest on such Security and for all other purposes; and none of the Company, the Trustee, any Paying Agent, any co-registrar or any Registrar shall be affected by any notice to the contrary.

Section 2.14. CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.

Section 2.15. Book-Entry Provisions for Global Securities.

(a) The Global Securities initially shall (i) be registered in the name of the Depository or the nominee of such Depository, (ii) be delivered to the Trustee as custodian for such Depository and (iii) bear legends as set forth in Exhibit C.

Members of, or participants in, the Depository ("Participants") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depository, or the Trustee as its custodian, or under the Global Security, and the Depository may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of the Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or impair, as between the Depository and Participants, the operation of customary practices governing the exercise of the rights of a Holder of any Security.

(b) Transfers of Global Securities shall be limited to transfers in whole, but not in part, to the Depository, its successors or their respective nominees. Interests of beneficial owners in the Global Securities may be transferred or exchanged for Physical Securities in accordance with the rules and procedures of the Depository and the provisions of Section 2.16; provided, however, that Physical Securities shall be transferred to all beneficial owners in exchange for their beneficial interests in Global Securities if (i) the Company notifies the Trustee in writing that DTC is no longer willing or able to act as a depository or DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depository is not appointed within 90 days of such notice or cessation, (ii) the Company, at its option, notifies the Trustee in writing

that it elects to cause the issuance of the securities as Physical Securities, or (iii) an Event of Default has occurred and is continuing and the Registrar has received a request from the Depository to issue Physical Securities; provided that in no event shall the Regulation S Temporary Global Security be exchanged by the Company for Physical Securities prior to (x) the expiration of the Restricted Period and (y) the receipt by the Registrar of any certificates required pursuant to Rule 903 under the Securities Act as stated in an Opinion of Counsel.

(c) In connection with the transfer of Global Securities as an entirety to beneficial owners pursuant to paragraph (b) of this Section 2.15, the Global Securities shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and the Trustee shall upon written instructions from the Company authenticate and deliver, to each beneficial owner identified by the Depository in exchange for its beneficial interest in the Global Securities, an equal aggregate principal amount of Physical Securities of authorized denominations.

(d) Any Physical Security constituting a Restricted Security delivered in exchange for an interest in a Global Security pursuant to paragraph (c) of this Section 2.15 shall, except as otherwise provided by Section 2.16, bear the Private Placement Legend.

(e) The Holder of any Global Security may grant proxies and otherwise authorize any Person, including Participants and Persons that may hold interests through Participants, to take any action which a Holder is entitled to take under this Indenture or the Securities.

#### Section 2.16. Registration of Transfers and Exchanges.

(a) Transfer and Exchange of Physical Securities. When Physical Securities are presented to the Registrar or co-Registrar with a written request:

(i) to register the transfer of the Physical Securities; or

(ii) to exchange such Physical Securities for an equal principal amount of Physical Securities of other authorized denominations,

the Registrar or co-Registrar shall register the transfer or make the exchange as requested if the requirements under this Indenture as set forth in this Section 2.16 for such transactions are met; provided, however, that the Physical Securities presented or surrendered for registration of transfer or exchange:

(I) shall be duly endorsed or accompanied by a written instrument of transfer in form satisfactory to the Registrar or co-Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing; and

(II) in the case of Physical Securities the offer and sale of which have not been registered under the Securities Act, such Physical Securities shall be accompanied, in the discretion of the Company or the Trustee, by the following additional information and documents, as applicable:

- (A) if such Physical Security is being delivered to the Registrar or co-Registrar by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder to that effect (substantially in the form of Exhibit D hereto); or
- (B) if such Physical Security is being transferred to a QIB in accordance with Rule 144A, a certification to that effect (substantially in the form of Exhibit D hereto); or
- (C) if such Physical Security is being transferred to an Institutional Accredited Investor, delivery of a certification to that effect (substantially in the form of Exhibit D hereto) and a transferee letter of representation (substantially in the form of Exhibit E hereto) and, at the option of the Company or the Trustee, an Opinion of Counsel reasonably satisfactory to the Company or the Trustee, as the case may be, to the effect that such transfer is in compliance with the Securities Act; or
- (D) if such Physical Security is being transferred in reliance on Regulation S, delivery of a certification to that effect (substantially in the form of Exhibit D hereto) and a transferor certificate for Regulation S transfer substantially in the form of Exhibit F hereto and, at the option of the Company or the Trustee, an Opinion of Counsel reasonably satisfactory to the Company or the Trustee, as the case may be, to the effect that such transfer is in compliance with the Securities Act; or
- (E) if such Physical Security is being transferred in reliance on Rule 144 under the Securities Act, delivery of a certification to that effect (substantially in the form of Exhibit D hereto) and, at the option of the Company or the Trustee, an Opinion of Counsel reasonably satisfactory to the Company or the Trustee, as the case may be, to the effect that such transfer is in compliance with the Securities Act; or
- (F) if such Physical Security is being transferred in reliance on another exemption from the registration requirements of the Securities Act, a certification to that effect (substantially in the form of Exhibit D hereto) and, at the option of the Company or the Trustee, an Opinion of Counsel reasonably acceptable to the Company or the Trustee, as the case may be, to the effect that such transfer is in compliance with the Securities Act.

(b) Restrictions on Transfer of a Physical Security for a Beneficial Interest in a Global Security. A Physical Security the offer and sale of which has not been registered under the Securities Act may not be exchanged for a beneficial interest in a Global Security except upon satisfaction of the requirements set forth below. Upon receipt by the Registrar or co-Registrar of a Physical Security, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Registrar or co-Registrar, together with:

(A) certification, substantially in the form of Exhibit D hereto, that such Physical Security is being transferred (I) to a QIB, (II) to an Institutional Accredited Investor or (III) in an offshore transaction in reliance on Regulation S and, with respect to (II) and (III), at the option of the Company or the Trustee, an Opinion of Counsel reasonably acceptable to the Company or the Trustee, as the case may be, to the effect that such transfer is in compliance with the Securities Act; and

(B) written instructions directing the Registrar or co-Registrar to make, or to direct the Depository to make, an endorsement on the applicable Global Security to reflect an increase in the aggregate amount of the Securities represented by the Global Security,

then the Registrar or co-Registrar shall cancel such Physical Security and cause, or direct the Depository to cause, in accordance with the standing instructions and procedures existing between the Depository and the Registrar or co-Registrar, the principal amount of Securities represented by the applicable Global Security to be increased accordingly. If no 144A Global Security, IAI Global Security or Regulation S Global Security, as the case may be, is then outstanding, the Company shall, unless either of the events in the proviso to Section 2.15(b) have occurred and are continuing, issue and the Trustee shall, upon written instructions from the Company in accordance with Section 2.2, authenticate a new Global Security of such type in principal amount equal to the principal amount of the interest requested to be transferred. Private Exchange Securities, as such, may not be exchanged for a beneficial interest in a Global Security.

(c) Transfer and Exchange of Global Securities. The transfer and exchange of Global Securities or beneficial interests therein shall be effected through the Depository in accordance with this Indenture (including the restrictions on transfer set forth herein) and the procedures of the Depository therefor; provided, however, that prior to the expiration of the Restricted Period, transfers of beneficial interests in the Regulation S Temporary Global Security may not be made to a U.S. Person or for the account or benefit of a U.S. Person (other than an Initial Purchaser). Upon receipt by the Registrar or Co-Registrar of written instructions, or such other instruction as is customary for the Depository, from the Depository or its nominee,

requesting the registration of transfer of an interest in a 144A Global Security, an IAI Global Security or a Regulation S Global Security, as the case may be, to another type of Global Security, together with the applicable Global Securities (or, if the applicable type of Global Security required to represent the interest as requested to be obtained is not then outstanding, only the Global Security representing the interest being transferred), the Registrar or Co-Registrar shall reflect on its books and records (and the applicable Global Security) the applicable increase and decrease of the principal amount of Securities represented by such types of Global Securities, giving effect to such transfer. If the applicable type of Global Security required to represent the interest as requested to be obtained is not outstanding at the time of such request, the Company shall issue and the Trustee shall, upon written instructions from the Company in accordance with Section 2.2, authenticate a new Global Security of such type in principal amount equal to the principal amount of the interest requested to be transferred.

(d) Transfer of a Beneficial Interest in a Global Security for a Physical Security.

(i) Any Person having a beneficial interest in a Global Security may upon written request exchange such beneficial interest for a Physical Security; provided, however, that prior to the Registration, a transferee that is a QIB or an Institutional Accredited Investor may not exchange a beneficial interest in Global Security for a Physical Security; provided that in no event shall Physical Securities be issued upon the transfer or exchange of beneficial interests in the Regulation S Temporary Global Security prior to (x) the expiration of the Restricted Period and (y) the receipt by the Registrar of any certificates required pursuant to Rule 903 under the Securities Act as stated in an Opinion of Counsel. Upon receipt by the Registrar or co-Registrar of written instructions, or such other form of instructions as is customary for the Depository, from the Depository or its nominee on behalf of any Person having a beneficial interest in a Global Security and upon receipt by the Trustee of a written order or such other form of instructions as is customary for the Depository or the Person designated by the Depository as having such a beneficial interest containing registration instructions and, in the case of any such transfer or exchange of a beneficial interest in Securities the offer and sale of which have not been registered under the Securities Act, the following additional information and documents:

(A) if such beneficial interest is being transferred in reliance on Rule 144 under the Securities Act, delivery of a certification to that effect (substantially in the form of Exhibit D hereto) and, at the option of the Company or the Trustee, an Opinion of Counsel reasonably satisfactory to the Company or the Trustee, as the case may be, to the effect that such transfer is in compliance with the Securities Act; or

(B) if such beneficial interest is being transferred in reliance on another exemption from the registration requirements of the Securities Act, a certification to that effect (substantially in the form of Exhibit D hereto) and, at the option of the Company or the Trustee, an Opinion of Counsel reasonably satisfactory to the Company or the Trustee, as the case may be, to the effect that such transfer is in compliance with the Securities Act,

then the Registrar or co-Registrar will cause, in accordance with the standing instructions and procedures existing between the Depository and the Registrar or co-Registrar, the aggregate principal amount of the applicable Global Security to be reduced and, following such reduction, the Company will execute and, upon receipt of an authentication order in the form of an Officers' Certificate in accordance with Section 2.2, the Trustee will authenticate and deliver to the transferee a Physical Security in the appropriate principal amount.

(ii) Securities issued in exchange for a beneficial interest in a Global Security pursuant to this Section 2.16(d) shall be registered in such names and in such authorized denominations as the Depository, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Registrar or co-Registrar in writing. The Registrar or co-Registrar shall deliver such Physical Securities to the Persons in whose names such Physical Securities are so registered.

(e) Restrictions on Transfer and Exchange of Global Securities. Notwithstanding any other provisions of this Indenture, a Global Security may not be transferred as a whole except by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository.

(f) Private Placement Legend. Upon the transfer, exchange or replacement of Securities not bearing the Private Placement Legend, the Registrar or co-Registrar shall deliver Securities that do not bear the Private Placement Legend. Upon the transfer, exchange or replacement of Securities bearing the Private Placement Legend, the Registrar or co-Registrar shall deliver only Securities that bear the Private Placement Legend unless, and the Trustee is hereby authorized to deliver Securities without the Private Placement Legend if, (i) there is delivered to the Trustee an Opinion of Counsel reasonably satisfactory to the Company and the Trustee to the effect that neither such legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the Securities Act; (ii) such Security has been sold pursuant to an effective registration statement under the Securities Act (including pursuant to a Registration); or (iii) the date of such transfer, exchange or replacement is two years after the later of (x) the Issue Date and (y) the last date that the Company or any affiliate (as defined in Rule 144 under the Securities Act) of the Company was the owner of such Securities (or any predecessor thereto).

(g) General. By its acceptance of any Security bearing the Private Placement Legend, each Holder of such a Security acknowledges the restrictions on transfer of such Security set forth in this Indenture and in the Private Placement Legend and agrees that it will transfer such Security only as provided in this Indenture.

The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Participants or beneficial owners of interest in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

The Registrar shall retain copies of all letters, notices and other written communications received pursuant to this Section 2.16 or Section 2.15. The Company shall have the right to inspect and make copies of all such letters, notices or other written communications at any reasonable time upon the giving of reasonable written notice to the Registrar.

### ARTICLE 3 REDEMPTION

#### Section 3.1. Notices to Trustee.

If the Company elects to redeem Securities pursuant to the redemption provisions of Section 3.7 hereof, it shall notify the Trustee in writing of the Redemption Date and the principal amount of Securities to be redeemed.

The Company shall give each notice to the Trustee provided for in this Section at least 60 days before the Redemption Date unless the Trustee consents to a shorter period. Such notice shall be accompanied by an Officers' Certificate and an Opinion of Counsel from the Company to the effect that such redemption will comply with the conditions herein. If fewer than all the Securities are to be redeemed, the record date relating to such redemption shall be selected by the Company and given to the Trustee, which record date shall be not less than 15 days after the date of notice to the Trustee.

Any such notice may be cancelled prior to notice being mailed to any Holder pursuant to Section 3.3 hereof and shall thereafter be void and of no effect.

#### Section 3.2. Selection of Securities to Be Redeemed.

If fewer than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed pro rata or by lot or by a method that complies with applicable legal

and securities exchange requirements, if any, and that the Trustee in its sole discretion considers fair and appropriate and in accordance with methods generally used at the time of selection by fiduciaries in similar circumstances. The Trustee shall make the selection from outstanding Securities not previously called for redemption. The Trustee may select for redemption portions of the principal of Securities that have denominations larger than \$1,000. Securities and portions of them the Trustee selects shall be in amounts of \$1,000 or a whole multiple of \$1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of Securities to be redeemed.

Section 3.3. Notice of Redemption.

At least 30 days but not more than 60 days before a Redemption Date, the Company shall mail a notice of redemption by first-class mail to each Holder of Securities to be redeemed.

The notice shall identify (including the CUSIP number, if any) the Securities to be redeemed and shall state:

- (1) the Redemption Date;
- (2) the Redemption Price;
- (3) the name and address of the Paying Agent;
- (4) that Securities called for redemption must be surrendered to the Paying Agent to collect the Redemption Price;
- (5) if fewer than all the outstanding Securities are to be redeemed, the identification and principal amounts of the particular Securities to be redeemed;
- (6) that, unless the Company defaults in making such redemption payment interest on Securities (or portion thereof) called for redemption ceases to accrue on and after the Redemption Date; and
- (7) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Securities.

At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense. In such event, the Company shall provide the Trustee with the information required by this Section.

#### Section 3.4. Effect of Notice of Redemption.

Once notice of redemption is mailed, Securities called for redemption become due and payable on the Redemption Date and at the Redemption Price stated in the notice. Upon surrender to the Paying Agent, such Securities shall be paid at the Redemption Price stated in the notice, plus accrued interest to the Redemption Date. Failure to give notice or any defect in the notice to any Holder shall not affect the validity of the notice to any other Holder.

#### Section 3.5. Deposit of Redemption Price.

Prior to the Redemption Date, the Company shall deposit with the Paying Agent (or, if the Company or any of its Subsidiaries is the Paying Agent, shall segregate and hold in trust) money sufficient to pay the Redemption Price of and accrued interest on all Securities to be redeemed on that date, other than Securities or portions of Securities called for redemption which have been delivered by the Company to the Trustee for cancellation.

#### Section 3.6. Securities Redeemed in Part.

Upon surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate for the Holder at the expense of the Company a new Security equal in principal amount to the unredeemed portion of the Security surrendered.

#### Section 3.7. Redemption.

Except as provided otherwise below, the Company may not redeem any of the Securities prior to June 15, 2000. At any time on or after June 15, 2000, the Company may, at its option, redeem outstanding Securities, in whole or in part, at a Redemption Price equal to a percentage of the principal amount thereof, as set forth in the immediately succeeding paragraph, plus all accrued and unpaid interest thereon to the Redemption Date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

The Redemption Price as a percentage of principal amount shall be as follows, if the Securities are redeemed during the 12-month period commencing on or after June 15 of the years set forth below:

Year ----	Percentage -----
2000.....	104.688
2001.....	102.344
2002 and thereafter.....	100.000

Any redemption pursuant to this Section 3.7 shall be made pursuant to the provisions of Sections 3.1 through 3.6 hereof.

In the case of any redemption of Securities or Existing Securities, the Company shall redeem Existing Securities or Securities, as the case may be, on a pro rata basis.

#### Section 3.8. Limitations.

The provisions of this Article 3 and of the Securities shall not apply to any private or open market purchase of Securities by the Company, whether or not any Securities so purchased are retired or extinguished.

### ARTICLE 4 COVENANTS

Subject to the provisions of Section 8.1, so long as Securities are outstanding hereunder, the Company covenants for the benefit of the Securityholders that:

#### Section 4.1. Payment of Principal and Interest.

The Company shall promptly pay the principal of, premium, if any, and interest on the Securities on the dates and in the manner provided in the Securities and the Registration Rights Agreement. Principal, premium, if any, and interest shall be considered paid on the date due if on such date the Trustee or the Paying Agent holds in accordance with this Indenture money sufficient to pay all principal, premium, if any, and interest then due.

The Company shall pay interest on overdue principal and premium, if any, at the rate specified therefor in the Securities, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful as provided in Section 2.12.

#### Section 4.2. Maintenance of Office or Agency for Notices and Demands.

The Company will maintain in The City of New York an office or agency where the Securities may be presented for payment, an office or agency where the Securities may be presented for registration of transfer and for exchange as provided in this Indenture and an office or agency where notices and demands to or upon the Company in respect of such Securities or of this Indenture may be served. Until otherwise designated by the Company in a written notice to the Trustee, such office or agency in The City of New York shall be the principal corporate trust office of the Trustee at 101 Barclay Street, New York, New York 10286. If at any time the Company shall fail to maintain any such required office, such presentations and demands may also be made and notices may also be served at the principal corporate trust office of the Trustee which shall be, until further notice to the Company by the Trustee, at 101 Barclay Street, New York, New York 10286.

#### Section 4.3. Insurance Matters.

The Company will at all times insure or act as self-insurer, and cause its Subsidiaries to insure or act as self-insurers, to such extent as the Company may determine is prudent and not inconsistent with industry practice.

#### Section 4.4. SEC Reports.

Notwithstanding that the Company may not be required to remain subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall file with the SEC and provide the Trustee and Securityholders with such annual reports and such information, documents and other reports specified in Sections 13 and 15(d) of the Exchange Act. The Company also shall comply with the other provisions of TIA Section 314(a).

#### Section 4.5. Compliance Certificate.

The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company an Officers' Certificate stating that in the course of the performance by the signers of their duties as Officers of the Company they would normally have knowledge of any Default by the Company and whether or not the signers know of any Default that occurred during such period. If they do, the certificate shall describe the Default, its status and what action the Company is taking or proposes to take with respect thereto. The Company also shall comply with TIA Section 314(a)(4).

#### Section 4.6. Corporate Existence.

Subject to Article 5, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, material rights (charter and statutory) and franchises; provided, however, that the Company shall not be required to preserve any such material right or franchise if the preservation thereof is no longer desirable in the conduct of the business of the Company or the loss thereof is not materially adverse to the Holders of the Securities.

#### Section 4.7. Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before any penalty accrues thereon, (1) all material taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all material lawful claims for labor, materials and supplies

which, if unpaid, might by law become a Lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 4.8. Appointments to Fill Vacancies in Trustee's Office.

The Company, whenever necessary to avoid or fill a vacancy in the office of the Trustee, will appoint, in the manner provided in Section 7.8, a Trustee, so that there shall at all times be a Trustee hereunder.

Section 4.9. Limitation of Indebtedness.

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, Incur any Indebtedness unless (i) the Consolidated Coverage Ratio at the date of such Incurrence exceeds 2.5 to 1.0; and (ii) no Default or Event of Default shall have occurred and be continuing at the time or as a consequence of the Incurrence of such Indebtedness.

(b) Notwithstanding the foregoing paragraph (a), the Company may Incur any or all of the following Indebtedness:

(1) Indebtedness Incurred pursuant to the Credit Agreement so long as the aggregate principal amount of such Indebtedness outstanding at any time shall not exceed \$250 million;

(2) Subordinated Indebtedness owed to and held by a Wholly Owned Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock or any other event which results in any such Wholly Owned Subsidiary ceasing to be a Wholly Owned Subsidiary or any subsequent transfer of such Subordinated Indebtedness (other than to another Wholly Owned Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Subordinated Indebtedness by the Company;

(3) the Securities and the Existing Securities;

(4) Indebtedness outstanding on the date of the Existing Securities Indenture (other than Indebtedness described in clause (1), (2) or (3) above;

(5) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to Section 4.9(a) or pursuant to clause (3) or (4) above or this clause (5);

(6) additional Indebtedness in an aggregate principal amount outstanding at any time not exceeding \$60 million Incurred pursuant to the Credit Agreement or any replacement thereof;

(7) Indebtedness in an aggregate principal amount which, together with all other Indebtedness of the Company then outstanding (other than Indebtedness permitted by clauses (1) through (6) above) does not exceed \$80 million (less the aggregate amount of any Indebtedness Incurred pursuant to clause (6) above); and

(8) Indebtedness arising out of Capital Lease Obligations, Purchase Money Indebtedness and Sale/Leaseback Transactions permitted pursuant to Section 4.17 in an aggregate principal amount outstanding at any one time not exceeding \$20 million.

(c) Notwithstanding the foregoing, the Company shall not Incur any Indebtedness pursuant to Section 4.9(b) if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Indebtedness unless such Indebtedness shall be subordinated to the Securities to at least the same extent as such Subordinated Indebtedness.

#### Section 4.10. Limitation on Indebtedness and Capital Stock of Restricted Subsidiaries.

The Company shall not permit any Restricted Subsidiary to Incur, directly or indirectly, any Indebtedness or Capital Stock except:

(1) Indebtedness or Capital Stock issued to and held by the Company or a Wholly Owned Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock or any other event which results in any such Wholly Owned Subsidiary ceasing to be a Wholly Owned Subsidiary or any subsequent transfer of such Indebtedness or Capital Stock (other than to the Company or a Wholly Owned Subsidiary) shall be deemed, in each case, to constitute the issuance of such Indebtedness or Capital Stock by the issuer thereof;

(2) Indebtedness or Capital Stock of a Subsidiary incurred and outstanding on or prior to the date on which such Subsidiary was acquired by the Company (other than Indebtedness or Capital Stock Incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Company) and Refinancing Indebtedness Incurred in respect thereof; provided, however, that such Refinancing Indebtedness shall only be permitted under this clause (2) to the extent Incurred by the Subsidiary that originally Incurred such Indebtedness;

(3) Indebtedness or Capital Stock issued and outstanding on or prior to the date of the Existing Securities Indenture (other than Indebtedness described in clauses (1) or (2) above);

(4) Purchase Money Indebtedness; provided, however, that the aggregate amount of Purchase Money Indebtedness outstanding after giving pro forma effect to any Incurrence of Purchase Money Indebtedness may not exceed \$30 million unless, after giving effect to the Incurrence of such Purchase Money Indebtedness, the Company would be able to Incur an additional \$1.00 of Indebtedness pursuant to Section 4.9(a);

(5) Indebtedness Incurred by any Restricted Subsidiary that is a Foreign Subsidiary; provided, however, that any such Indebtedness Incurred by such Restricted Subsidiary shall not exceed 20% of the Consolidated Net Tangible Assets of such Restricted Subsidiary;

(6) Refinancing Indebtedness Incurred in respect of Indebtedness or Capital Stock referred to in clauses (3) or (4) above or this clause (6); and

(7) Indebtedness Incurred by any Restricted Subsidiary that is a Foreign Subsidiary for the purpose of acquiring a Restricted Subsidiary that is a Foreign Subsidiary; provided, the principal amount of such Indebtedness may not exceed the purchase price for such Subsidiary; provided, further, that after giving effect to the Incurrence of such Indebtedness, the Company would be able to Incur an additional \$1.00 of Indebtedness pursuant to Section 4.9(a).

Section 4.11. Limitation on Restricted Payments.

(a) The Company shall not, and shall not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(1) a Default or Event of Default shall have occurred and be continuing (or would result therefrom); or

(2) the Company is not able to Incur an additional \$1.00 of Indebtedness pursuant to Section 4.9(a); or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Existing Securities Issue Date would exceed the sum of:

(A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from April 1, 1995 to the end of the most recent

fiscal quarter ending prior to the date of such Restricted Payment (or, in the case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); and

(B) the aggregate Net Cash Proceeds received by the Company from the issuance or sale of its Capital Stock (excluding Disqualified Stock and including Capital Stock issued upon conversions of convertible debt or upon exercise of options or warrants) subsequent to the Existing Securities Issue Date (excluding an issuance or sale to the Subsidiary of the Company and excluding an issuance or sale to the ESOP).

(b) The provisions of the foregoing paragraph (a) shall not prohibit:

(i) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this Section 4.11; provided, however, that at the time of payment of such dividend, no other Default shall have occurred and be continuing (or result therefrom); provided further, however, that such dividend shall be included in the calculation of the amount of Restricted Payments;

(ii) the Company and its Restricted Subsidiaries from making loans or advancements to, or investments in, any Joint Venture in an aggregate amount not exceeding \$15 million plus the lesser of (I) any amounts received as repayment of any such loan, advancement or investment and (II) the initial amount thereof;

(iii) the declaration of payment of dividends on Common Stock of the Company following a public offering of its Common Stock of up to 6% per annum of the Net Cash Proceeds received by the Company in such public offering;

(iv) the Company and its Restricted Subsidiaries from making any contribution to the ESOP or refinancing the ESOP Loan;

(v) any purchase or redemption of Capital Stock or Subordinated Indebtedness of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or the ESOP); provided, however, that (A) such purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale shall be excluded from the calculation of amounts under Section 4.11(a)(3)(B);

(vi) any purchase or redemption of Subordinated Indebtedness made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness of the Company which is permitted to be Incurred pursuant to Section 4.9; provided, however, that such purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments;

(vii) loans and advances to employees of the Company or any of its Restricted Subsidiaries for travel, entertainment and relocation expenses in the ordinary course of business in an aggregate amount outstanding at any one time not to exceed \$5 million;

(viii) the redemption of up to 4,000,000 shares of Common Stock from Scandinavian Holdings, B.V. on or prior to April 30, 1997 at an aggregate purchase price that, together with Restricted Payments otherwise permitted under paragraph (a) above, would not exceed \$44,000,000; provided, however, that Restricted Payments made pursuant to this clause (viii) shall be included in the calculation of Restricted Payments for all purposes under Section 4.11(a)(3); and

(ix) up to an aggregate amount of \$2,000,000 of additional Restricted Payments from and after March 21, 1997 until such time as the Company has the authority under Section 4.11(a) to make such Restricted Payments; provided, however, that Restricted Payments made pursuant to this clause (ix) shall be included in the calculation of Restricted Payments for all purposes under Section 4.11(a).

For purposes of performing the calculation specified in Section 4.11(a)(3), amounts paid in respect of clauses (i) and (iii) of this Section 4.11(b) shall be counted as Restricted Payments and amounts paid in respect of clauses (ii), (iv) and (v) of this Section 4.11(b) shall not be counted as Restricted Payments. Any sale or transfer of property by an Unrestricted Subsidiary to the Company or a Restricted Subsidiary with the intention of taking back a lease of that property will be considered a loan to that Unrestricted Subsidiary for this purpose.

Section 4.12. Limitation on Restrictions on Distributions from Restricted Subsidiaries.

The Company shall not, and shall not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (i) pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness owed to the Company or any Restricted Subsidiary, (ii) make any loans or advances to the Company or any Restricted Subsidiary, (iii) transfer any of its property or assets to the Company or any Restricted Subsidiary or (iv) make payments in respect of any Indebtedness owed to the Company or any Restricted Subsidiary, except:

(1) any such encumbrance or restriction pursuant to an agreement in effect at or entered into on the Existing Securities Issue Date;

(2) any such encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary on or prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company) and outstanding on such date;

(3) any such encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in clause (1) or (2) of this Section 4.12 or contained in any amendment to an agreement referred to in clause (1) or (2) above; provided, however, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such refinancing agreement or amendment are no less favorable to the Securityholders than any such encumbrances and restrictions with respect to such Restricted Subsidiary contained in such agreements;

(4) any such encumbrance or restriction consisting of customary nonassignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property leased thereunder;

(5) in the case of clause (iii) above, encumbrances and restrictions contained in security agreements or mortgages securing Indebtedness of a Restricted Subsidiary to the extent such restrictions restrict the transfer of the property subject to such security agreements or mortgages;

(6) any such encumbrance or restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(7) any such encumbrance or restriction with respect to any Restricted Subsidiary that is a Foreign Subsidiary pursuant to an agreement relating to Indebtedness permitted to be Incurred pursuant to Section 4.10(7); and

(8) restrictions imposed by applicable law.

Section 4.13. Limitation on Sales of Assets.

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, make any Asset Disposition unless: (i) the Company or such Restricted Subsidiary, as the case may be, receives consideration at the time of such sale or other disposition at least equal to the Fair Market Value thereof; (ii) at least 75% of the consideration received by the Company or such Restricted Subsidiary, as the case may be, consists of cash or Cash Equivalents or Fully Traded Common Stock; provided, however, that the amount of any Senior Indebtedness of the Company or such Restricted Subsidiary that is assumed by the transferee in any such transaction shall be deemed to be cash for purposes of this Section 4.13(a) and (iii) the Net Available Cash received by the Company or such Restricted Subsidiary, as the case may be, from such Asset Disposition is applied in accordance with the following paragraphs.

In the event and to the extent that the Company makes one or more Asset Dispositions on or after the Existing Securities Issue Date in any period of 12 consecutive months with respect to assets the Fair Market Value of which exceeds \$20 million as of the beginning of such 12-month period, then the Company shall (i) within 365 days after the date the Net Available Cash so received from such Asset Dispositions exceeds \$230 million (such excess being referred to as "Excess Net Available Cash") and to the extent the Company elects (or is required by the terms of any Indebtedness) (A) apply an amount equal to such Excess Net Available Cash to repay Senior Indebtedness or (B) invest an equal amount, or the amount not so applied pursuant to clause (A), in Additional Assets and (ii) apply such Excess Net Available Cash (to the extent not applied pursuant to clause (i)) as provided in the following paragraphs of this Section 4.13. The amount of such Excess Net Available Cash required to be applied during the applicable period and not applied as so required by the end of such period shall constitute "Excess Proceeds."

If, as of the first day of any calendar month, the aggregate amount of Excess Proceeds not theretofore subject to an Excess Proceeds Offer (as defined below) totals at least \$5 million, the Company must, not later than the fifteenth Business Day of such month, make an offer (an "Excess Proceeds Offer") to purchase from the Holders on a pro rata basis an aggregate principal amount of Securities equal to the Excess Proceeds (rounded down to the nearest multiple of \$1,000) on such date, at a purchase price equal to 100% of the principal amount of such Securities, plus, in each case, accrued interest (if any) to the date of purchase (the "Excess Proceeds Payment").

If any Excess Net Available Cash is used to repay either Securities or Existing Securities, the Company will make an offer to repurchase Existing Securities or Securities, as the case may be, on a pro rata basis.

(b) In the event of the transfer of substantially all (but not all) the property and assets of the Company as an entirety to a Person in a transaction permitted under Section 5.1, the Successor Company shall be deemed to have sold the properties and assets of the Company not so transferred for purposes of this Section 4.13, and shall comply with the provisions of this Section 4.13 with respect to such deemed sale as if it were an Asset Disposition and the Successor Company shall be deemed to have received Net Available Cash in an amount equal to the fair market value (as determined in good faith by the Board of Directors) of the properties and assets not so transferred or sold.

(c) The Company shall commence an Excess Proceeds Offer by mailing a notice to the Trustee and each Holder stating:

(i) that the Excess Proceeds Offer is being made pursuant to this Section 4.13 and that all Securities validly tendered will be accepted for payment on a pro rata basis;

(ii) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 40 days from the date such notice is mailed) (the "Excess Proceeds Payment Date");

(iii) that any Security not tendered will continue to accrue interest as provided in this Indenture;

(iv) that, unless the Company defaults in the payment of the Excess Proceeds Payment, any Security accepted for payment pursuant to the Excess Proceeds Offer shall cease to accrue interest after the Excess Proceeds Payment Date;

(v) that Holders electing to have a Security purchased pursuant to the Excess Proceeds Offer will be required to surrender the Security, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Security completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Excess Proceeds Payment Date;

(vi) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Excess Proceeds Payment Date, a telegram, telex, facsimile transmission or letter setting forth the name of such Holder, the principal amount of Securities delivered for purchase and a statement that such Holder is withdrawing his election to have such Securities purchased; and

(vii) that Holders whose Securities are being purchased only in part will be issued new Securities equal in principal amount to the unpurchased portion of the Securities surrendered; provided, however, that each Security purchased and each new Security issued shall be in an original principal amount of \$1,000 or integral multiples thereof.

On or prior to the date notice is mailed to the Trustee and each Holder, the Company shall furnish the Trustee with an Officers' Certificate stating the amount of the Excess Proceeds Payment.

(d) On the Excess Proceeds Payment Date, the Company shall:

(i) accept for payment on a pro rata basis Securities or portions thereof tendered pursuant to the Excess Proceeds Offer;

(ii) deposit with the Paying Agent money sufficient to pay the purchase price of all Securities or portions thereof so accepted; and

(iii) deliver, or cause to be delivered, to the Trustee, Securities or portions thereof so accepted together with an Officers' Certificate specifying the Securities or portions thereof accepted for payment by the Company.

The Paying Agent shall promptly mail to the Holders of Securities so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Security equal in principal amount to any unpurchased portion of the Security surrendered; provided, however, that each Security purchased and each new Security issued shall be in an original principal amount of \$1,000 or integral multiples thereof.

The Company will publicly announce the results of the Excess Proceeds Offer as soon as practicable after the Excess Proceeds Payment Date. For purposes of this Section 4.13, the Trustee shall act as the Paying Agent.

(e) The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable laws or regulations thereunder in the event that such Excess Proceeds are received by the Company under this Section 4.13 and the Company is required to repurchase Securities as described above. To the extent that the provisions of any applicable laws or regulations conflict with the provisions of this Section 4.13, the Company shall comply with the applicable laws and regulations and shall not be deemed to have breached its obligations under this Section 4.13 by virtue thereof.

#### Section 4.14. Limitation on Affiliate Transactions.

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, enter into or permit to exist any transaction or series of transactions (including the purchase, sale,

lease or exchange of any property, employee compensation arrangements or the rendering of any service) with any Affiliate of the Company (an "Affiliate Transaction") unless the terms thereof are no less favorable to the Company or any Restricted Subsidiary than those which could be obtained at the time of such transaction in arm's-length dealings with a Person who is not such an Affiliate.

In addition, the Company shall not, and shall not permit any Restricted Subsidiary to, enter into any Affiliate transaction unless: (i) with respect to such Affiliate Transaction involving the aggregate value, remuneration or other consideration of more than \$1 million but less than or equal to \$5 million, the Company has obtained approval of a majority of the Board of Directors of the Company (including a majority of the disinterested directors); (ii) with respect to such Affiliate Transaction involving the aggregate value, remuneration or other consideration of more than \$5 million, the Company has delivered to the Trustee an opinion of a nationally recognized investment banking firm to the effect that such Affiliate Transaction is fair to the Company or such Restricted Subsidiary, as the case may be, from a financial point of view; (iii) any issuance of securities or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by the Board of Directors; (iv) the grant of stock options or similar rights to employees and directors of the Company pursuant to plans approved by the Board of Directors; (v) any Affiliate Transaction between the Company and a Wholly Owned Subsidiary or between Wholly Owned Subsidiaries; and (vi) any transaction entered into by the Company or any Restricted Subsidiary with the Plan.

#### Section 4.15. Change of Control.

(a) Upon the occurrence of a Change of Control, each Holder shall have the right to require that the Company repurchase such Holder's Securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant interest payment date), in accordance with the terms contemplated in Section 4.15(b).

(b) Within 30 days following any Change of Control, the Company shall mail a notice to each Holder with a copy to the Trustee stating:

(1) that a Change of Control has occurred and that such Holder has the right to require the Company to purchase such Holder's Securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control (including information with respect to pro forma historical income, cash flow and capitalization after giving effect to such Change of Control);

(3) the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Change of Control Payment Date"); and

(4) the instructions determined by the Company, consistent with this Section 4.15, that a Holder must follow in order to have its Securities purchased.

(c) Holders electing to have a Security purchased will be required to surrender the Security, with an appropriate form duly completed, to the Company at the address specified in the notice at least 10 Business Days prior to the purchase date. Holders will be entitled to withdraw their election if the Trustee or the Company receives not later than three Business Days prior to the purchase date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Security which was delivered for purchase by the Holder and a statement that such Holder is withdrawing his election to have such Security purchased.

(d) On the purchase date, all Securities purchased by the Company under this Section shall be delivered by the Trustee for cancellation, and the Company shall pay the purchase price plus accrued and unpaid interest, if any, to the Holders entitled thereto.

(e) The Company shall comply, to the extent applicable, with the requirement of Section 14(e) of the Exchange Act and any other applicable laws or regulations in connection with the purchase of Securities pursuant to this Section 4.15. To the extent that the provisions of any applicable laws or regulations conflict with the provisions of this Section 4.15, the Company shall comply with the applicable laws and regulations and shall not be deemed to have breached its obligations under this Section 4.15 by virtue thereof.

#### Section 4.16. Limitation on Liens.

The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, incur or permit to exist any Lien of any nature whatsoever on any of its properties (including Capital Stock of a Restricted Subsidiary), whether owned at the Existing Securities Issue Date or thereafter acquired, other than Permitted Liens, without effectively providing that the Securities shall be secured equally and ratably with (or prior to) the obligations so secured for so long as such obligations are so secured.

Section 4.17. Limitation on Sale/Leaseback Transactions.

The Company shall not, and shall not permit any Restricted Subsidiary to, enter into any Sale/Leaseback Transaction with respect to any property unless (i) the Company or such Restricted Subsidiary would be entitled to create a Lien on such property without equally and ratably securing the Securities pursuant to Section 4.16 or (ii) the net proceeds of such sale are at least equal to the fair value (as determined by the Board of Directors) of such property and the Company or such Restricted Subsidiary shall apply or cause to be applied an amount in cash equal to the net proceeds of such sale to the retirement, within 30 days of the effective date of such Sale/Leaseback Transaction, of Senior Indebtedness of the Company (including the Securities) or Indebtedness or Preferred Stock of a Restricted Subsidiary.

Section 4.18. Further Instruments and Acts.

Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

ARTICLE 5  
SUCCESSOR COMPANY

Section 5.1. When Company May Merge or Transfer Assets.

The Company shall not consolidate with or merge with or into, or convey, transfer or lease all or substantially all its assets to, any Person, unless:

(1) the resulting, surviving or transferee Person (the "Successor Company") shall be a Person organized and existing under the laws of the United States of America, any state thereof or the District of Columbia and the Successor Company (if not the Company) shall expressly assume, by an indenture supplemental to this Indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, all the obligations of the Company under the Securities and this Indenture;

(2) immediately after giving effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Event of Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction, the Consolidated Coverage Ratio of the Successor Company is at least 1:1; provided, however, that, if the Consolidated Coverage Ratio of the Company before giving effect to such transaction is within a range set forth in column (A) below, then the Consolidated Coverage Ratio of the Successor Company shall be at least equal to the lesser of (1) the ratio determined by multiplying the relevant percentage set forth in column (B) below by the Consolidated Coverage Ratio prior to such transaction and (2) the relevant ratio set forth in column (C) below:

	(A)		(B)	(C)
1.11:1	to	1.99:1.....	90%	1.50:1
2.00:1	to	2.99:1.....	80%	2.10:1
3.00:1	to	3.99:1.....	70%	2.40:1
4.00:1	or greater.....		60%	2.50:1;

and

(4) immediately after giving effect to such transaction, the Successor Company shall have Consolidated Net Worth in an amount which is not less than the Consolidated Net Worth of the Company prior to such transaction.

The Company shall deliver to the Trustee prior to the consummation of the proposed transaction an Officers' Certificate to the foregoing effect and an Opinion of Counsel stating that the proposed transaction and such supplemental indenture comply with this Indenture.

#### Section 5.2. Successor Corporation Substituted.

The Successor Company shall be the successor to the Company and shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture, but the predecessor Company in the case of a conveyance, transfer or lease shall not be released from the obligation to pay the principal of and interest on the Securities.

### ARTICLE 6 DEFAULTS AND REMEDIES

#### Section 6.1. Events of Default.

An "Event of Default" occurs if:

(1) the Company defaults in any payment of interest on any Security when the same becomes due and payable, and such default continues for a period of 30 days;

(2) the Company (i) defaults in the payment of the principal of any Security when the same becomes due and payable at its Stated Maturity, upon redemption, upon declaration or otherwise, or (ii) fails to purchase Securities when required pursuant to this Indenture or the Securities;

(3) the Company fails to comply with Section 4.15 or 5.1;

(4) the Company fails to perform or observe any of the covenants, conditions or agreements on the part of the Company in this Indenture (other than a covenant, condition or agreement a Default in whose performance or whose breach is elsewhere in this Section 6.1 specifically dealt with) or in the Securities, and such failure continues for 30 days after the notice specified below;

(5) Indebtedness of the Company or any Restricted Subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds \$5,000,000 (or its foreign currency equivalent) with respect to any individual Indebtedness or, together with all Indebtedness unpaid or accelerated, aggregates \$10 million (or its foreign currency equivalent);

(6) the Company or any Restricted Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case;

(B) consents to the entry of an order for relief against it in an involuntary case;

(C) consents to the appointment of a Custodian of it or for any substantial part of its property; or

(D) makes a general assignment for the benefit of its creditors;

or takes any comparable action under any foreign laws relating to insolvency;

(7) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company or any Restricted Subsidiary in an involuntary case;

(B) appoints a Custodian of the Company or any Restricted Subsidiary or for any substantial part of its property; or

(C) orders the winding up or liquidation of the Company or any Restricted Subsidiary;

or any similar relief is granted under any foreign laws and the order or decree remains unstayed and in effect for 60 days; or

(8) any judgment or decree for the payment of money in excess of \$5,000,000 (or its foreign currency equivalent) (to the extent not covered by insurance) with respect to any individual judgment or decree or aggregating \$10 million (or its foreign currency equivalent) is entered against the Company or any Restricted Subsidiary and there is a period of 60 days following the entry of such judgment or decree during which such judgment or decree is not discharged, waived or the execution thereof stayed.

The foregoing will constitute Events of Default whatever the reason for any such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

The term "Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

A Default under clause (3) of this Section is not an Event of Default until the Trustee or the Holders of at least 25% in principal amount of the Securities notify the Company of the Default. Such Notice must specify the Default and state that such notice is a "Notice of Default."

A Default under clause (4) of this Section is not an Event of Default until the Trustee or the Holders of at least 25% in principal amount of the Securities notify the Company of the Default and the Company does not cure such Default within the time specified after receipt of such Notice. Such Notice must specify the Default, demand that it be remedied and state that such Notice is a "Notice of Default."

The Company shall deliver to the Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event which with the giving of notice and the lapse of time would become an Event of Default under clause (4) of this Section, its status and what action the Company is taking or proposes to take with respect thereto.

#### Section 6.2. Acceleration.

If an Event of Default (other than an Event of Default specified in Section 6.1(6) or (7) with respect to the Company) occurs and is continuing, the Trustee by notice to the Company or the Holders of at least 25% in principal amount of the Securities by notice to the Company, may declare the principal of and accrued interest on all the Securities to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default specified in Section 6.1(6) or (7) with respect to the Company occurs, the principal of and interest on all the Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholders. The Holders of a majority in principal amount of the Securities by notice to the Trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of acceleration. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

#### Section 6.3. Other Remedies.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

#### Section 6.4. Waiver of Past Defaults.

The Holders of a majority in principal amount of the Securities by notice to the Trustee may waive an existing Default and its consequences except (i) a Default in the payment of the principal of or interest on a Security or (ii) a Default in respect of a provision that under Section 9.2 cannot be amended without the consent of each Securityholder affected. When a Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Default or impair any consequent right.

Section 6.5. Control by Majority.

The Holders of a majority in principal amount of the Securities may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 7.1, that the Trustee determines is unduly prejudicial to the rights of other Securityholders or would involve the Trustee in personal liability; provided, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. Prior to taking any action hereunder, the Trustee shall be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

Section 6.6. Limitation on Suits.

A Securityholder may not pursue any remedy with respect to this Indenture or the Securities unless:

- (1) the Holder gives to the Trustee written notice stating that an Event of Default is continuing;
- (2) the Holders of at least 25% in principal amount of the Securities make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer to the Trustee reasonable security or indemnity against any loss, liability or expense;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of security or indemnity; and
- (5) the Holders of a majority in principal amount of the Securities do not give the trustee a direction inconsistent with the request during such 60-day period.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over another Securityholder.

Section 6.7. Rights of Holders To Receive Payment.

Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of and interest on those Securities held by such Holder, on or after the respective due dates expressed in the Securities, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

Section 6.8. Collection Suit by Trustee.

If an Event of Default in payment of interest or principal specified in Section 6.1(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of principal and interest remaining unpaid (together with interest on such unpaid interest to the extent lawful) and the amounts provided for in Section 7.7.

Section 6.9. Trustee May File Proofs of Claim.

The trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Securityholders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the Holders in any election of a trustee in bankruptcy or other person performing similar functions, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and its counsel, and any other amounts due the Trustee under Section 7.7.

Section 6.10. Priorities.

If the Trustee collects any money or property pursuant to this Article 6, it shall pay out the money or property in the following order:

FIRST: to the Trustee for amounts due under Section 7.7;

SECOND: to Securityholders for amounts due and unpaid on the Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal and interest, respectively; and

THIRD: to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section. At least 15 days before such record date, the Trustee shall mail to each Securityholder and the Company a notice that states the record date, the payment date and amount to be paid.

#### Section 6.11. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.7 or a suit by Holders of more than 10% in principal amount of the Securities.

#### Section 6.12. Waiver of Stay or Extension Laws.

The Company (to the extent it may lawfully do so) shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

### ARTICLE 7 TRUSTEE

#### Section 7.1. Duties of Trustee.

(1) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(2) Except during the continuance of an Event of Default:

(a) The Trustee need perform only those duties that are specifically set forth in this Indenture and no others, and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(b) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, in the case of any such certificates or opinions which by any

provision hereof are specifically required to be furnished to the Trustee, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(3) The Trustee may not be relieved from liabilities for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(a) This paragraph does not limit the effect of paragraph (2) of this Section.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.5.

(4) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (1), (2), (3) and (5) of this Section.

(5) No provision of this Indenture shall require the Trustee to expend or risk its own funds or incur any liability. In case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under this Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense.

(6) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

#### Section 7.2. Rights of Trustee.

(1) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(2) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel or both. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel. The Trustee may consult with counsel of its selection and the advice of such counsel (to be confirmed in writing) or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(3) The Trustee may act through agents or attorneys and shall not be responsible for the misconduct or negligence of any agent or attorney appointed with due care.

(4) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers conferred upon it by this Indenture.

(5) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

#### Section 7.3. Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or an Affiliate with the same rights it would have if it were not Trustee. Any Paying Agent may do the same with like rights. However, the Trustee is subject to Sections 7.10 and 7.11.

#### Section 7.4. Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities or any money paid to the Company or upon the Company's direction under any provision hereof, it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee and it shall not be responsible for any statement or recital herein or any statement in the Securities other than its certificate of authentication.

#### Section 7.5. Notice of Defaults.

If a Default occurs and is continuing, the Trustee shall mail to Securityholders a notice of the Default, if known to the Trustee, within 90 days after it occurs. In the absence of notice to the contrary, the Trustee shall be entitled to assume that such obligations are outstanding. Except in the case of a Default in payment on any Security (including the failure to make a mandatory redemption pursuant hereto), the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is not opposed to the interests of Securityholders.

#### Section 7.6. Reports by Trustee to Holders.

Within 60 days after each December 15, beginning with the December 15 following the date of this Indenture, the Trustee shall mail to Securityholders a brief report dated as of such reporting date that complies with TIA Section 313(a), if such a report is required pursuant to TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b). The Trustee shall also transmit by mail all reports as required by TIA Section 313(c).

Commencing if and when this Indenture is qualified under the TIA, a copy of each report at the time of its mailing to Securityholders shall be filed with the SEC and each stock exchange on which the Securities are listed. The Company or any other obligor upon the Securities shall promptly notify the Trustee when the Securities are listed on any stock exchange.

#### Section 7.7. Compensation and Indemnity.

The Company shall pay to the Trustee from time to time such compensation as shall be agreed in writing from time to time by the Company and the Trustee for its acceptance of this Indenture and services hereunder. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable disbursements, advances and expenses incurred by it. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel. The obligations of the Company under this Section 7.7 to compensate and indemnify the Trustee and its agents and to reimburse the Trustee for its reasonable expenses shall survive the termination of the Company's obligations hereunder and the satisfaction and discharge of this Indenture.

The Company shall indemnify the Trustee, its employees, officers, directors and agents, and any predecessor trustee against any and all losses, liabilities, damages, claims, or expenses, including taxes (other than taxes based on the income of the Trustee), incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture, except as set forth in the next paragraph. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. The Company shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld.

The Company need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee through negligence or bad faith.

To secure the Company's payment obligations in this Section, the Trustee shall have a Lien prior to the Securities on all money or property held or collected by the Trustee, except that held in trust to pay principal and interest on particular Securities. Such Lien shall survive the satisfaction and discharge of this Indenture and the resignation or removal of the Trustee. Compensation, reimbursement and indemnification to the Trustee under this Section is not subordinated to Senior Indebtedness.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.1(6) or (7) with respect to the Company occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law.

#### Section 7.8. Replacement of Trustee.

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section.

The Trustee may resign and be discharged from the trust hereby created by so notifying the Company. The Holders of a majority in principal amount of the then outstanding Securities may remove the Trustee by so notifying the Trustee and the Company. The Company may remove the Trustee if:

- (1) the Trustee fails to comply with Section 7.10;
- (2) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;
- (3) a custodian or public officer takes charge of the Trustee or its property; or
- (4) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company and any other obligor upon the Securities shall promptly appoint a successor Trustee.

If a successor Trustee does not take office within 10 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of at least 10% in principal amount of the then outstanding Securities may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee after written request by any Securityholder who has been a Securityholder for at least six months fails to comply with Section 7.10, such Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Securityholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the Lien provided for in Section 7.7. Notwithstanding replacement of the Trustee pursuant to this Section 7.8, the Company's obligations under Section 7.7 thereof shall continue for the benefit of the retiring Trustee.

Section 7.9. Successor Trustee by Merger, etc.

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Trustee.

Section 7.10. Eligibility; Disqualification.

There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America or of any state thereof authorized under such laws to exercise corporate trustee power, shall be subject to supervision or examination by Federal or state authority and shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition. No obligor upon the Securities or any Affiliate of such obligor shall serve as trustee upon the Securities.

This Indenture shall always have a Trustee who satisfies the requirements of TIA Section 310(a)(1). The Trustee is subject to TIA Section 310(b) regarding disqualification of a trustee upon acquiring any conflicting interest.

Section 7.11. Preferential Collection of Claims Against

Company.

The Trustee is subject to TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

ARTICLE 8  
DISCHARGE OF INDENTURE

Section 8.1. Legal Defeasance and Covenant Defeasance of the

Securities.

(a) The Company may, at its option by Board resolution, at any time, with respect to the Securities, elect to have either paragraph (b) or paragraph (c) below be applied to the outstanding Securities upon compliance with the conditions set forth in paragraph (d).

(b) Upon the Company's exercise under paragraph (a) of the option applicable to this paragraph (b), the Company shall be deemed to have been released and discharged from its obligations with respect to the outstanding Securities on the date the conditions set forth below are satisfied (hereinafter, "legal defeasance"). For this purpose, such defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Securities, which shall thereafter be deemed to be "outstanding" only for the purposes of the Sections of and matters under this Indenture referred to in (i) and (ii) below, and to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned, except for the following which shall survive until otherwise terminated or discharged hereunder: (i) the rights of Holders of outstanding securities to receive solely from the trust fund described in paragraph (d) below and as more fully set forth in such paragraph, payments in respect of the principal of, premium, if any, and interest on such Securities when such payments are due and (ii) obligations listed in Section 8.3

(c) Upon the Company's exercise under paragraph (a) of the option applicable to this paragraph (c), the Company shall be released and discharged from its obligations under any covenant contained in Article 5 and in Sections 4.3 through 4.17 with respect to the outstanding Securities on and after the date the conditions set forth below are satisfied (hereinafter, "covenant defeasance"), and the Securities shall thereafter be deemed to be not "outstanding" for the purpose of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to the outstanding Securities, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 6.1(3) or 6.1(4), nor shall any event referred to in Section 6.1(5) or 6.1(8) thereafter constitute a Default or an Event of Default thereunder but, except as specified above, the remainder of this Indenture and such Securities shall be unaffected thereby.

(d) The following shall be the conditions to application of either paragraph (b) or paragraph (c) above to the outstanding Securities;

(1) The Company shall have irrevocably deposited in trust with the Trustee, pursuant to an irrevocable trust and security agreement in form and substance satisfactory to the Trustee, cash or U.S. Government Obligations maturing as to principal and interest at such times, or a combination thereof, in such amounts as are sufficient, without consideration of the reinvestment of such interest and after payment of all Federal, state and local taxes or other charges or assessments in respect thereof payable by the Trustee, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof (in form and substance reasonably satisfactory to the Trustee) delivered to the Trustee, to pay the principal of, premium, if any, and interest on the outstanding Securities on the dates on which any such payments are due and payable in accordance with the terms of this Indenture and of the Securities;

(2) (i) No Event of Default shall have occurred or be continuing on the date of such deposit, and (ii) no Default or Event of Default under Section 6.1(6) or 6.1(7) shall occur on or before the 123rd day after the date of such deposit;

(3) Such deposit will not result in a Default under this Indenture or a breach or violation of, or constitute a default under, any other instrument or agreement to which the Company is a party or by which it or its property is bound;

(4) In the case of a legal defeasance under paragraph (b) above, the Company has delivered to the Trustee an Opinion of Counsel stating that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of this Indenture there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Securities will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred; and, in the case of a covenant defeasance under paragraph (c) above, the Company shall deliver to the Trustee an Officers' Certificate and an Opinion of Counsel, in form and substance reasonably satisfactory to the Trustee, to the effect that Holders of the Securities will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(5) The Holders shall have a perfected security interest under applicable law in the case of U.S. Government Obligations deposited pursuant to Section 8.1(d)(1) above;

(6) The Company shall have delivered to the Trustee an Opinion of Counsel, in form and substance reasonably satisfactory to the Trustee, to the effect that, after the passage of 123 days following the deposit, the trust funds will not be subject to any applicable bankruptcy, insolvency, reorganization or similar law affecting creditors' rights generally; and

(7) The Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent specified herein relating to the defeasance contemplated by this Section 8.1 have been complied with; provided, however, that no deposit under clause (1) above shall be effective to terminate the obligations of the Company or any Subsidiary Guarantor under the Securities or this Indenture prior to 123 days following any such deposit.

In connection with the issuance of debt securities the proceeds of which will be used to redeem all the Securities then outstanding, none of Sections 4.9, 4.11 and 4.16 shall be violated by the issuance of such debt securities to the extent the Company complies with all of the provisions of this Section 8.1(d) other than Section 8.1(d)(2)(ii). The Company and the Trustee shall use best efforts to ensure that the deposit referred to in Section 8.1(d)(1) does not result in the Company, the Trustee or the trust becoming or being deemed an investment company under the Investment Company Act of 1940. In the event that such deposit does result in the Company, the Trustee or the trust becoming or being deemed an investment company, the Company shall bear all related expenses of registration and reporting under the Investment Company Act of 1940 for the duration of the trust.

Section 8.2. Termination of Obligations upon Cancellation of the Securities.

In addition to the Company's rights under Section 8.1, the Company may terminate all of its obligations under this Indenture (subject to Section 8.3) when:

(a) (1) all Securities theretofore authenticated and delivered (other than Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.7) have been delivered to the Trustee for cancellation; (2) the Company has paid or caused to be paid all other sums payable hereunder and under the Securities by the Company; and (3) the Company has delivered to the Trustee an Officers' Certificate, stating that all conditions precedent specified herein relating to the satisfaction and discharge of this Indenture have been complied with; or

(b) (1) the Securities not previously delivered to the Trustee for cancellation will have become due and payable or are by their terms to become due and payable within one year or are to be called for redemption under arrangements satisfactory to the Trustee upon delivery of notice; (2) the Company will have irrevocably deposited with the Trustee, as trust funds, cash, in an amount sufficient to pay principal of and interest on the outstanding Securities, to maturity or redemption, as the case may be; (3) such deposit will not result in a breach or violation of or constitute a default under, any agreement or instrument pursuant to which the Company or any Subsidiary is a party or by which it or its property is bound; and (4) and the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions related to such defeasance have been complied with.

#### Section 8.3. Survival of Certain Obligations.

Notwithstanding the satisfaction and discharge of this Indenture and of the Securities referred to in Section 8.1 or 8.2, the respective obligations of the Company, and the Trustee under Sections 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.14, 3.7, 4.2, 6.7, 7.7, 7.8, 8.5, 8.6 and 8.7 and shall survive until the Securities are no longer outstanding, and thereafter the obligations of the Company and the Trustee under Sections 7.7, 8.5 and 8.6 shall survive. Nothing contained in this Article 8 shall abrogate any of the obligations or duties of the Trustee under this Indenture.

#### Section 8.4. Acknowledgment of Discharge by Trustee.

Subject to Section 8.7, after (i) the conditions of Section 8.1 or 8.2 have been satisfied, (ii) the Company has paid or caused to be paid all other sums payable hereunder by the Company and (iii) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent referred to in clause (i) above relating to the satisfaction and discharge of this Indenture have been complied with, the Trustee upon written request shall acknowledge in writing the discharge of the Company's obligations under this Indenture except for those surviving obligations specified in Section 8.3.

#### Section 8.5. Application of Trust Assets.

The Trustee shall hold any cash or U.S. Government Obligations deposited with it in the irrevocable trust established pursuant to Section 8.1 or 8.2, as the case may be. The Trustee shall apply the deposited cash or the U.S. Government Obligations, together with earnings thereon, through the Paying Agent, in accordance with this Indenture and the terms of the irrevocable trust agreement established pursuant to Section 8.1 or 8.2, as the case may be, to the payment of principal of, premium, if any, and interest on the Securities. The cash or U.S. Government Obligations so held in trust and deposited with the Trustee in compliance with Section 8.1 or 8.2, as the case may be, shall not be part of the trust estate under this Indenture, but shall constitute a separate trust fund for the benefit of all holders entitled thereto.

#### Section 8.6. Repayment to the Company; Unclaimed Money.

Upon termination of the trust established pursuant to Section 8.1 or 8.2, as the case may be, the Trustee and the Paying Agent shall promptly pay to the Company upon request any excess cash or U.S. Government Obligations held by them. Additionally, if money for the payment of principal, premium, if any, or interest remains unclaimed for two years, the Trustee and the Paying Agents will pay the money back to the Company forthwith. After that, all liability of the Trustee and such Paying Agents with respect to such money shall cease.

The Trustee and the Paying Agent shall pay to the Company upon request, and, if applicable, in accordance with the cash or U.S. Government Obligations held by them for the payment of principal of, premium, if any, or interest on the Securities that remain unclaimed for two years after the date on which such payment shall have become due. After payment to the Company, Holders entitled to such payment must look to the Company for such payment as general creditors unless an applicable abandoned property law designates another person.

#### Section 8.7. Reinstatement.

If the Trustee or Paying Agent is unable to apply any cash or U.S. Government Obligations in accordance with Section 8.1 or 8.2 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.1 or 8.2 until such time as the Trustee or Paying Agent is permitted to apply all such cash or U.S. Government Obligations in accordance with Section 8.1 or 8.2, as the case may be; provided that if the Company makes any payment of principal of, premium, if any, or interest on an Securities following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the money held by the Trustee or the Paying Agent.

### ARTICLE 9 Amendments

#### Section 9.1. Without Consent of Holders.

The Company and the Trustee may amend or enter into an indenture or indentures supplemental hereto without the consent of any Securityholder:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to comply with Section 5.2;
- (3) to comply with any requirements of the SEC in connection with the qualification of this Indenture under the TIA as then in effect;
- (4) to provide for uncertificated Securities in addition to or in place of certificated Securities;
- (5) to make any change that does not materially adversely affect the legal rights hereunder of any Securityholder;
- (6) to secure the Securities and to make intercreditor arrangements with respect to any such Security, unless the incurrence of such obligations or the security thereof is prohibited by this Indenture;
- (7) to evidence or to provide for a replacement Trustee under Section 7.8; or
- (8) to add to the covenants and agreements of the Company for the benefit of the Holders and to surrender any right or power herein conferred on the Company.

Upon the request of the Company, accompanied by a resolution of the Board of Directors authorizing the execution of any such amendment or supplemental indenture, and upon receipt by the Trustee of the documents described in Section 9.6 hereof, the Trustee shall join with the Company in the execution of any amendment or supplemental indenture authorized or permitted by the terms of this Indenture and to make any further appropriate agreements and stipulations which may be therein contained, but the Trustees shall not be obligated to enter into such amendment or supplemental indenture which affects its own rights, duties or immunities under this Indenture or otherwise.

#### Section 9.2. With Consent of Holders.

The Company and the Trustee may amend or enter into an indenture or indentures supplemental hereto with the written consent of the Holders of at least a majority in aggregate principal amount of the then outstanding Securities. The Holders of a majority in principal amount of the Securities then outstanding may, or the Trustee with the written consent of the holders of at least a majority in principal amount of the then outstanding Securities may, waive compliance in a particular instance by the Company with any provision of this Indenture or the Securities.

Upon the request of the Company, accompanied by a resolution of the Board of Directors authorizing the execution of any such amendment or supplemental indenture, and upon the filing with the Trustee of evidence of the consent of the Securityholders as aforesaid, and upon receipt by the Trustee of the documents described in Section 9.6 hereof, the Trustee shall join with the Company in the execution of such amendment or supplemental indenture unless such amendment or supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such amendment or supplemental indenture.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, supplemental indenture or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplemental indenture or waiver under this Section becomes effective, the Company shall mail to the Holders of each Security affected thereby a copy of such amendment, supplemental indenture or waiver and a notice briefly describing the amendment, supplemental indenture or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amendment, supplemental indenture or waiver.

Notwithstanding the first paragraph of this Section 9.2, without the consent of each Securityholder affected, an amendment, supplemental indenture or waiver under this Section shall not:

- (1) reduce the principal amount of Securities whose Holders must consent to an amendment, supplemental indenture or waiver of any provision of this Indenture or the Securities;
- (2) reduce the rate of or change the time for payment of interest, including default interest, on any Security;
- (3) reduce the principal of, any installment of interest on or any premium with respect to any Security, change the Stated Maturity of any Security or change the periods during which Securities may be redeemed in accordance with any provision of this Indenture or the Securities;
- (4) make any Security payable in currency other than that stated in the Security;
- (5) make any change in the amendment and waiver provisions contained in this Article 9; or

(6) waive a Default or an Event of Default in the payment of principal of or interest on (including default interest), or redemption payment with respect to, any Security, except as provided in Section 6.1 hereof as in effect on the date hereof.

Section 9.3. Compliance with Trust Indenture Act.

Every amendment to or waiver of this Indenture or the Securities shall be set forth in a supplemental indenture that complies with the TIA as then in effect.

Section 9.4. Revocation and Effect of Consents.

Until an amendment, supplemental indenture or waiver becomes effective, a consent to it by a Holder of a Security is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to his Security or portion of a Security if the Trustee receives written notice of revocation before the date the amendment, supplemental indenture or waiver becomes effective. An amendment, supplemental indenture or waiver becomes effective in accordance with its terms and thereafter binds every Securityholder.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to consent to any amendment, supplemental indenture or waiver. If a record date is fixed, those persons who were Holders at such record date (or their duly designated proxies), and only those persons, shall be entitled to consent to such amendment, supplemental indenture or waiver or to revoke any consent previously given, whether or not such persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

Section 9.5. Notation on or Exchange of Securities.

The Trustee may place an appropriate notation about an amendment, supplemental indenture or waiver on any Security thereafter authenticated. The Company in exchange for all Securities may issue and the Trustee shall authenticate new Securities that reflect the amendment, supplemental indenture or waiver.

Section 9.6. Trustee to Sign Amendments, etc.

The Trustee shall sign any amendment, waiver or supplemental indenture authorized pursuant to this Article 9 if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing or refusing to sign such amendment, waiver or supplemental indenture, the Trustee shall

be entitled to receive and, subject to Section 7.1, shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel as conclusive evidence that such amendment, waiver or supplemental indenture is authorized or permitted by this Indenture, that it is not inconsistent herewith, and that it will be valid and binding upon the Company in accordance with its terms.

ARTICLE 10  
MISCELLANEOUS

Section 10.1. Trust Indenture Act Controls.

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by operation of subsection (c) of Section 318 of the TIA, the imposed duties shall control.

Section 10.2. Notices.

Any notice or communication by the Company or the Trustee to the others is duly given if in writing and delivered in person or mailed by first-class mail (registered or certified, return receipt requested), telecopier or overnight air courier guaranteeing next day delivery, to the other's address:

If to the Company:

Westinghouse Air Brake Company  
1001 Air Brake Avenue  
Wilmerding, Pennsylvania 15148  
Attention: Robert Brooks

Telephone No.: (412) 825-1315  
Telecopier No.: (412) 825-1156

With a copy to:

Reed Smith Shaw & McClay  
435 Sixth Avenue  
Pittsburgh, Pennsylvania 15219

Attention: David L. DeNinno, Esq.

Telephone No.: (412) 288-3214  
Telecopier No.: (412) 288-3218

If to the Trustee:

The Bank of New York  
101 Barclay Street, Floor 21 West  
New York, New York 10286  
Attention: Corporate Trust Administration

Telephone No.: (212) 815-2588  
Telecopier No.: (212) 815-5915

The Company, any other obligor upon the Securities or the Trustee by notice to the others may designate additional or different addresses for subsequent notices or communications.

All notices and communications (other than those sent to Securityholders) shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; when receipt acknowledged, if telecopies; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

Any notice or communication to a Securityholder shall be mailed by first-class mail to his address shown on the register kept by the Registrar. Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the Company (or any other obligor upon the Securities) mails a notice or communication to Securityholders, it shall mail a copy to the Trustee at the same time.

#### Section 10.3. Communication by Holders with Other Holders.

Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).

#### Section 10.4. Certificate and Opinion as to Conditions

##### Precedent.

Upon any request or application by the Company (or any other obligor upon the Securities) to the Trustee to take any action under this Indenture, the Company (or such other obligor) shall furnish to the Trustee:

(1) an Officers' Certificate (which shall include the statements set forth in Section 10.5) stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) An Opinion of Counsel (which shall include the statements set forth in Section 10.5) stating that, in the opinion of such counsel, all such conditions precedent and covenants have been complied with.

#### Section 10.5. Statements Required in Certificate or Opinion.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that the Person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

#### Section 10.6. Rules by Trustee and Agents.

The Trustee may make reasonable rules for action by or at a meeting of Securityholders. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

Section 10.7. No Recourse Against Others.

No recourse under or upon any obligation, covenant or agreement contained in this Indenture, or in any security, or because of any indebtedness evidenced thereby, shall be had against any stockholder, officer or director, as such, of the Company or any successor, under any rule of law, statute or institutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Securities by the Holders thereof and as part of the consideration for the issue of the Securities.

Section 10.8. GOVERNING LAW.

THIS INDENTURE AND EACH SECURITY SHALL BE DEEMED TO BE A CONTRACT UNDER THE LAWS OF THE STATE OF NEW YORK AND FOR ALL PURPOSES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF SUCH STATE, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAWS.

Section 10.9. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or a Subsidiary. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 10.10. Successors.

All agreements of the Company in this Indenture and the Securities shall bind its successors and assigns, whether so expressed or not. All agreements of the Trustee in this Indenture shall bind its successors and assigns, whether so expressed or not.

Section 10.11. Severability.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.12. Counterpart Originals.

The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

Section 10.13. Variable Provisions.

The Company initially appoints the Trustee as Paying Agent and Registrar.

Section 10.14. Provisions of Indenture for the Sole Benefit of Parties and Securityholders.

Nothing in this Indenture or in the Securities, expressed or implied, shall give or be construed to give to any Person, firm or corporation, other than the parties hereto and their successors and the Holders of the Securities, any legal or equitable right, remedy or claim under this Indenture or under any covenant or provision herein contained, all such covenants and provisions being for the sole benefit of the parties hereto and their successors and of the Holders of the Securities.

Section 10.15. Table of Contents, Headings, etc.

The Table of Contents, Cross-Reference Table and Headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of January 12, 1999.

WESTINGHOUSE AIR BRAKE COMPANY

By: /s/ Robert J. Brooks  
-----  
Title: Vice-President

Attest:

By: -----  
Title:

(SEAL)

THE BANK OF NEW YORK, as Trustee

By: /s/ Iliana Acevedo  
-----  
Name: Iliana Acevedo  
Title: Assistant Treasurer

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of January 12, 1999.

WESTINGHOUSE AIR BRAKE COMPANY

By: /s/ Alvaro Garcia-Tunon  
-----  
Title: Vice President -  
Corporate Planning

Attest:

By: -----  
Title:

(SEAL)

THE BANK OF NEW YORK, as Trustee

By: /s/ Iliana Acevedo  
-----  
Name: Iliana Acevedo  
Title: Assistant Treasurer

## [FORM OF SERIES B1 SECURITY]

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT, (E) TO AN "ACCREDITED INVESTOR" WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT THAT IS AN INSTITUTIONAL INVESTOR ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF AN INSTITUTIONAL ACCREDITED INVESTOR, IN EACH CASE IN A MINIMUM PRINCIPAL AMOUNT OF THE SECURITIES OF \$250,000, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO OR FOR OFFER OR SALE IN CONNECTION WITH ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT OR (F) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D), (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

[FORM OF SERIES B1 SECURITY]

CUSIP No. \_\_\_\_\_ \$

9-3/8% Senior Note Due 2005, Series B1

WESTINGHOUSE AIR BRAKE COMPANY, a Delaware corporation, promises to pay to CEDE & CO., or registered assigns, the principal sum of \_\_\_\_\_ Dollars on June 15, 2005.

Interest Payment Dates: June 15 and December 15.

Record Dates: June 1 and December 1.

Additional provisions of this Security are set forth on the other side of this Security.

Dated:

WESTINGHOUSE AIR BRAKE COMPANY

By: \_\_\_\_\_

Title: President

\_\_\_\_\_  
Title: Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

THE BANK OF NEW YORK as Trustee, certifies that this is one of the Securities referred to in the Indenture.

Dated:

By: \_\_\_\_\_

Authorized Signatory

## [FORM OF REVERSE SIDE OF SECURITY]

9-3/8% Note Due 2005, Series B1

## 1. Interest

WESTINGHOUSE AIR BRAKE COMPANY, a Delaware corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), promises to pay interest on the principal amount of this Security at the rate per annum shown above. The Company will pay interest semiannually on June 15 and December 15 of each year. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from January 12, 1999. Interest will be computed on the basis of a 360-day year of twelve-30-day months. The Company shall pay interest on overdue principal at the rate borne by the Securities plus 1% per annum, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

## 2. Method of Payment

The Company will pay interest on the Securities (except defaulted interest) to the persons who are registered holders of Securities at the close of business on the June 1 or December 1 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. However, the Company may pay principal and interest by check payable in such money. It may mail an interest check to a Holder's registered address.

## 3. Paying Agent and Registrar

Initially, The Bank of New York, a New York banking corporation (the "Trustee"), will act as Paying Agent and Registrar. The Company may appoint and change any Paying Agent, Registrar or co-registrar without notice. The Company or any of its Subsidiaries may act as Paying Agent, Registrar or co-registrar.

## 4. Indenture

The Company issued the Securities under an Indenture dated as of January 12, 1999 (the "Indenture"), between the Company and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-7bbb) as in effect on the date of the Indenture (the "Act"). Capitalized terms used herein and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the Act for a statement of those terms.

The Securities are general unsecured obligations of the Company limited to \$75,000,000 aggregate principal amount subject to Section 2.7 of the Indenture). The Indenture imposes certain limitations on the Incurrence of Indebtedness by the Company and certain of its Subsidiaries, the payment of dividends and other distributions and acquisitions or retirements of the Company's Capital Stock and Subordinated Obligations, the sale or transfer of assets and Subsidiary stock, the Incurrence of Liens by the Company and certain of its subsidiaries, Sale/Leaseback transactions and transactions with Affiliates. In addition, the Indenture limits the ability of the Company and certain of its Subsidiaries to restrict distributions and dividends from Subsidiaries.

#### 5. Optional Redemption

Except as set forth in this paragraph 5, the Company may not redeem any of the Securities prior to June 15, 2000. At any time on or after June 15, 2000, the Company may, at its option, redeem outstanding Securities, in whole or in part, at a Redemption Price equal to a percentage of the principal amount thereof, as set forth in the immediately succeeding paragraph, plus all accrued and unpaid interest thereon to the Redemption Date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date.

The Redemption Price as a percentage of principal amount shall be as follows, if the Securities are redeemed during the 12-month period commencing on or after June 15 of the years set forth below:

Year ----	Percentage -----
2000.....	104.688
2001.....	102.344
2002 and thereafter.....	100.000

#### 6. Notice of Redemption

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Securities to be redeemed at his registered address. Securities in denominations larger than \$1,000 may be redeemed in part but only in whole multiples of \$1,000. If money sufficient to pay the redemption price of and accrued interest on all Securities (or portions thereof) to be redeemed on the redemption date is deposited with the Paying Agent or before the redemption date and certain other conditions are satisfied, on and after such redemption date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

7. Put Provisions

Upon a Change of Control, any Holder of Securities will have the right to cause the Company to repurchase all or any part of the Securities of such Holder at a repurchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued interest to the date of repurchase as provided in, and subject to the terms of, the Indenture.

8. Offer to Purchase

If the Company consummates any Asset Disposition, the Company may be required, subject to the terms and conditions of the Indenture, to utilize a certain portion of the proceeds received from such Asset Disposition to offer to repurchase Securities at a repurchase price equal to 100% of the principal amount of the Securities to be repurchased plus accrued interest to the date of repurchase.

9. Denominations; Transfer; Exchange

The Securities are in registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. No service charge shall be made for any such registration of transfer or exchange, but the Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not exchange or register the transfer of any Security or portion of a Security selected for redemption. Also, it need not exchange or register the transfer of any Securities for a period of 15 days before a selection of Securities to be redeemed or during the period between a record date and the next succeeding interest payment date.

10. Persons Deemed Owners

The registered holder of this Security may be treated as the owner of it for all purposes.

11. Unclaimed Money

If money for the payment of principal, premium, if any, or interest remains unclaimed for two years after the date on which such payment became due, the Trustee and the Paying Agents will pay the money back to the Company at its request. After that, all liability of the Trustee and such Paying Agents with respect to such money shall cease, and Holders entitled to the money must look only to the Company for payment.

## 12. Defeasance

Subject to certain conditions, the Company at any time may terminate some or all of its obligations under the Securities and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

## 13. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in principal amount outstanding of the Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of a majority in principal amount outstanding of the Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company and the Trustee may amend the Indenture or the Securities to cure any ambiguity, defect or inconsistency, or to comply with Article 5 of the Indenture, or to comply with any requirements of the SEC in connection with qualifying the Indenture under the Act, or to provide for uncertificated Securities in addition to or in place of certificated Securities, or to make any change that does not materially adversely affect the legal rights of any Securityholder, or to secure the Securities, or to provide for a replacement Trustee, or to add additional covenants and agreements of the Company for the benefit of the Securityholders or to surrender rights and powers reserved to the Company in the Indenture.

## 14. Defaults and Remedies

Under the Indenture, Events of Default include (i) default for 30 days in payment of interest on the Securities; (ii) default in payment of principal on the Securities at maturity, upon redemption pursuant to paragraph 5 of the Securities, upon declaration or otherwise, or failure by the Company to purchase Securities when required; (iii) failure by the Company to perform or observe any of the covenants, conditions or agreements on the part of the Company in the Indenture, in all cases subject to notice and in certain cases subject to lapse of time; (iv) certain accelerations (including failure to pay within any grace period after final maturity) of other Indebtedness of the Company or any Restricted Subsidiary if the amount accelerated (or so unpaid) exceeds \$5,000,000 (or its foreign currency equivalent) with respect to any individual indebtedness or, together with all Indebtedness unpaid or accelerated, aggregates \$10 million (or its foreign currency equivalent); (v) certain events of bankruptcy or insolvency with respect to the Company; and (vi) certain judgments or decrees for the payment of money in excess of \$5,000,000 (or its foreign currency equivalent) with respect to any individual judgment or decree or aggregating \$10 million (or its foreign currency equivalent) are entered against the Company or any Restricted Subsidiary and there is a period of 60 days following the entry of such judgment or decree during which such judgment or decree is not discharged, waived or the execution thereof stayed. If an Event of Default (other than an Event of Default relating to certain events of bankruptcy or insolvency with respect to the Company) occurs and is

continuing, the Trustee by notice to the Company, or the Holders of at least 25% in principal amount of the Securities by notice to the Company and the Trustee, may declare the principal of and accrued interest on all the Securities to be due and payable. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities being due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in principal amount of the Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is not opposed to their interest.

15. Trustee Dealings with the Company

Subject to certain limitations imposed by the Act, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledges of Securities and may otherwise deal with and collect obligations owed to it by the Company or its affiliates and may otherwise deal with the Company or its affiliates with the same rights it would have if it were not Trustee.

16. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company or the Trustee shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. Authentication

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

18. Abbreviations

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT(=tenants by the entirety), JT TEN (=joint tenants with rights of survivorships and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

## 19. CUSIP Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures the Company has caused CUSIP numbers to be printed on the Securities and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Securityholders. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Company will furnish to any Securityholder upon written request and without charge to the Securityholder a copy of the indenture which has in it the text of this Security in larger type. Requests may be made to: Westinghouse Air Brake Company, 1000 Air Brake Avenue, Wilmerding, Pennsylvania 15148, Attention of Chief Financial Officer.

## 20. Registration Rights

Pursuant to the Registration Rights Agreement, the Company will be obligated upon the occurrence of certain events to consummate an exchange offer pursuant to which the Holder of this Security shall have the right to exchange this Security for a 9-3/8% Senior Subordinated Note due 2005, Series B2, of the Company (an "Unrestricted Security") which has been registered under the Securities Act, in like principal amount and having terms identical in all material respects to this Security. The Holders shall be entitled to receive certain additional interest payments in the event such exchange offer is not consummated and upon certain other conditions, all pursuant to and in accordance with the terms of the Registration Rights Agreement.

## 21. Governing Law

The Indenture and this Security shall be governed by and construed in accordance with the laws of the State of New York without regard to the application of principles of conflicts of laws. Each of the parties hereto and thereto agrees to submit to the jurisdiction of the courts of the State of New York in any action or proceeding arising out of or relating to the Indenture and this Security.

ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint \_\_\_\_\_ agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

-----

Date: \_\_\_\_\_

Your  
Signature: \_\_\_\_\_

-----

Sign exactly as your name appears on the other side of this Security.

OPTION OF HOLDER TO ELECT REPURCHASE

If you want to elect to have this Security repurchased by the Company pursuant to Section 4.13 or Section 4.15 of the Indenture, check the appropriate box:

Section 4.13 [        ]  
Section 4.15 [        ]

If you want to elect to have only part of this Security repurchased by the Company pursuant to Section 4.13 or Section 4.15 of the Indenture, state the amount: \$\_\_\_\_\_

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_  
(Signed exactly as name appears  
on the other side of this  
Security)

[FORM OF SERIES B2 SECURITY]

CUSIP No. \_\_\_\_\_ \$

9-3/8% Senior Note Due 2005, Series B2

WESTINGHOUSE AIR BRAKE COMPANY, a Delaware corporation, promises to pay to CEDE & CO., or registered assigns, the principal sum of \_\_\_\_\_ Dollars on June 15, 2005.

Interest Payment Dates: June 15 and December 15.

Record Dates: June 1 and December 1.

Additional provisions of this Security are set forth on the other side of this Security.

Dated:

WESTINGHOUSE AIR BRAKE COMPANY

By: \_\_\_\_\_  
Title: President

\_\_\_\_\_  
Title: Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

THE BANK OF NEW YORK as Trustee, certifies that this is one of the Securities referred to in the Indenture.

Dated:

By: \_\_\_\_\_  
Authorized Signatory

## [FORM OF REVERSE SIDE OF SECURITY]

9-3/8% Senior Note Due 2005, Series B2

## 1. Interest

WESTINGHOUSE AIR BRAKE COMPANY, a Delaware corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), promises to pay interest on the principal amount of this Security at the rate per annum shown above. The Company will pay interest semiannually on June 15 and December 15 of each year. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from January 12, 1999. Interest will be computed on the basis of a 360-day year of twelve-30-day months. The Company shall pay interest on overdue principal at the rate borne by the Securities plus 1% per annum, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

## 2. Method of Payment

The Company will pay interest on the Securities (except defaulted interest) to the persons who are registered holders of Securities at the close of business on the June 1 or December 1 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. However, the Company may pay principal and interest by check payable in such money. It may mail an interest check to a Holder's registered address.

## 3. Paying Agent and Registrar

Initially, The Bank of New York, a New York banking corporation (the "Trustee"), will act as Paying Agent and Registrar. The Company may appoint and change any Paying Agent, Registrar or co-registrar without notice. The Company or any of its Subsidiaries may act as Paying Agent, Registrar or co-registrar.

## 4. Indenture

The Company issued the Securities under an Indenture dated as of January 12, 1999 (the "Indenture"), between the Company and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-7bbbb) as in effect on the date of the Indenture

(the "Act"). Capitalized terms used herein and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the Act for a statement of those terms.

The Securities are general unsecured obligations of the Company limited to \$75,000,000 aggregate principal amount subject to Section 2.7 of the Indenture). The Indenture imposes certain limitations on the Incurrence of Indebtedness by the Company and certain of its Subsidiaries, the payment of dividends and other distributions and acquisitions or retirements of the Company's Capital Stock and Subordinated Obligations, the sale or transfer of assets and Subsidiary stock, the Incurrence of Liens by the Company and certain of its subsidiaries, Sale/Leaseback transactions and transactions with Affiliates. In addition, the Indenture limits the ability of the Company and certain of its Subsidiaries to restrict distributions and dividends from Subsidiaries.

5. Optional Redemption

Except as set forth in this paragraph 5, the Company may not redeem any of the Securities prior to June 15, 2000. At any time on or after June 15, 2000, the Company may, at its option, redeem outstanding Securities, in whole or in part, at a Redemption Price equal to a percentage of the principal amount thereof, as set forth in the immediately succeeding paragraph, plus all accrued and unpaid interest thereon to the Redemption Date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date.

The Redemption Price as a percentage of principal amount shall be as follows, if the Securities are redeemed during the 12-month period commencing on or after June 15 of the years set forth below:

Year ----	Percentage -----
2000.....	104.688
2001.....	102.344
2002 and thereafter.....	100.000

6. Notice of Redemption

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Securities to be redeemed at his registered address. Securities in denominations larger than \$1,000 may be redeemed in part but only in whole multiples of \$1,000. If money sufficient to pay the redemption price of and accrued interest on all Securities (or portions thereof) to be redeemed on the redemption date is deposited with the Paying Agent or before the redemption date and certain other conditions are satisfied, on and after such redemption date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

7. Put Provisions

Upon a Change of Control, any Holder of Securities will have the right to cause the Company to repurchase all or any part of the Securities of such Holder at a repurchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued interest to the date of repurchase as provided in, and subject to the terms of, the Indenture.

8. Offer to Purchase

If the Company consummates any Asset Disposition, the Company may be required, subject to the terms and conditions of the Indenture, to utilize a certain portion of the proceeds received from such Asset Disposition to offer to repurchase Securities at a repurchase price equal to 100% of the principal amount of the Securities to be repurchased plus accrued interest to the date of repurchase.

9. Denominations; Transfer; Exchange

The Securities are in registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. No service charge shall be made for any such registration of transfer or exchange, but the Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not exchange or register the transfer of any Security or portion of a Security selected for redemption. Also, it need not exchange or register the transfer of any Securities for a period of 15 days before a selection of Securities to be redeemed or during the period between a record date and the next succeeding interest payment date.

10. Persons Deemed Owners

The registered holder of this Security may be treated as the owner of it for all purposes.

11. Unclaimed Money

If money for the payment of principal, premium, if any, or interest remains unclaimed for two years after the date on which such payment became due, the Trustee and the Paying Agents will pay the money back to the Company at its request. After that, all liability of the Trustee and such Paying Agents with respect to such money shall cease, and Holders entitled to the money must look only to the Company for payment.

## 12. Defeasance

Subject to certain conditions, the Company at any time may terminate some or all of its obligations under the Securities and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

## 13. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in principal amount outstanding of the Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of a majority in principal amount outstanding of the Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company and the Trustee may amend the Indenture or the Securities to cure any ambiguity, defect or inconsistency, or to comply with Article 5 of the Indenture, or to comply with any requirements of the SEC in connection with qualifying the Indenture under the Act, or to provide for uncertificated Securities in addition to or in place of certificated Securities, or to make any change that does not materially adversely affect the legal rights of any Securityholder, or to secure the Securities, or to provide for a replacement Trustee, or to add additional covenants and agreements of the Company for the benefit of the Securityholders or to surrender rights and powers reserved to the Company in the Indenture.

## 14. Defaults and Remedies

Under the Indenture, Events of Default include (i) default for 30 days in payment of interest on the Securities; (ii) default in payment of principal on the Securities at maturity, upon redemption pursuant to paragraph 5 of the Securities, upon declaration or otherwise, or failure by the Company to purchase Securities when required; (iii) failure by the Company to perform or observe any of the covenants, conditions or agreements on the part of the Company in the Indenture, in all cases subject to notice and in certain cases subject to lapse of time; (iv) certain accelerations (including failure to pay within any grace period after final maturity) of other Indebtedness of the Company or any Restricted Subsidiary if the amount accelerated (or so unpaid) exceeds \$5,000,000 (or its foreign currency equivalent) with respect to any individual indebtedness or, together with all Indebtedness unpaid or accelerated, aggregates \$10 million (or its foreign currency equivalent); (v) certain events of bankruptcy or insolvency with respect to the Company; and (vi) certain judgments or decrees for the payment of money in excess of \$5,000,000 (or its foreign currency equivalent) with respect to any individual judgment or decree

or aggregating \$10 million (or its foreign currency equivalent) are entered against the Company or any Restricted Subsidiary and there is a period of 60 days following the entry of such judgment or decree during which such judgment or decree is not discharged, waived or the execution thereof stayed. If an Event of Default (other than an Event of Default relating to certain events of bankruptcy or insolvency with respect to the Company) occurs and is continuing, the Trustee by notice to the Company, or the Holders of at least 25% in principal amount of the Securities by notice to the Company and the Trustee, may declare the principal of and accrued interest on all the Securities to be due and payable. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities being due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in principal amount of the Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is not opposed to their interest.

15. Trustee Dealings with the Company

Subject to certain limitations imposed by the Act, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledges of Securities and may otherwise deal with and collect obligations owed to it by the Company or its affiliates and may otherwise deal with the Company or its affiliates with the same rights it would have if it were not Trustee.

16. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company or the Trustee shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. Authentication

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

## 18. Abbreviations

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT(=tenants by the entirety), JT TEN (=joint tenants with rights of survivorships and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

## 19. CUSIP Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures the Company has caused CUSIP numbers to be printed on the Securities and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Securityholders. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Company will furnish to any Securityholder upon written request and without charge to the Securityholder a copy of the indenture which has in it the text of this Security in larger type. Requests may be made to: Westinghouse Air Brake Company, 1000 Air Brake Avenue, Wilmerding, Pennsylvania 15148, Attention of Chief Financial Officer.

## 20. Governing Law

The Indenture and this Security shall be governed by and construed in accordance with the laws of the State of New York without regard to the application of principles of conflicts of laws. Each of the parties hereto and thereto agrees to submit to the jurisdiction of the courts of the State of New York in any action or proceeding arising out of or relating to the Indenture and this Security.

ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint \_\_\_\_\_ agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

-----  
Date: \_\_\_\_\_  
Your  
Signature: \_\_\_\_\_

-----  
Sign exactly as your name appears on the other side of this Security.

OPTION OF HOLDER TO ELECT REPURCHASE

If you want to elect to have this Security repurchased by the Company pursuant to Section 4.13 or Section 4.15 of the Indenture, check the appropriate box:

Section 4.13 [        ]  
Section 4.15 [        ]

If you want to elect to have only part of this Security repurchased by the Company pursuant to Section 4.13 or Section 4.15 of the Indenture, state the amount: \$\_\_\_\_\_

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_  
(Signed exactly as name appears on the other side of this Security)

## FORM OF LEGEND FOR GLOBAL SECURITIES

Any Global Security authenticated and delivered hereunder shall bear a legend (which would be in addition to any other legends required in the case of a Restricted Security) in substantially the following form:

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITORY OR A NOMINEE OF A DEPOSITORY OR A SUCCESSOR DEPOSITORY. THIS SECURITY IS NOT EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITORY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS SECURITY (OTHER THAN A TRANSFER OF THIS SECURITY AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF CEDE & CO. OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN SECTION 2.16 OF THE INDENTURE.

CERTIFICATE TO BE DELIVERED UPON EXCHANGE  
OR REGISTRATION OF TRANSFER OF SECURITIES

Re: 9-3/8% Senior Notes due 2005 (the "Securities")  
of Westinghouse Air Brake Company

This Certificate relates to \$\_\_\_\_\_ principal amount of Securities held in the form of\*  a beneficial interest in a Global Security or\*  Physical Securities by \_\_\_\_\_ (the "Transferor").

The Transferor:\*

has requested by written order that the Registrar deliver in exchange for its beneficial interest in the Global Security held by the Depository a Physical Security or Physical Securities in definitive, registered form of authorized denominations and an aggregate number equal to its beneficial interest in such Global Security (or the portion thereof indicated above); or

has requested that the Registrar by written order to exchange or register the transfer of a Physical Security or Physical Securities.

In connection with such request and in respect of each such Security, the Transferor does hereby certify that the Transferor is familiar with the Indenture relating to the above captioned Securities and the restrictions on transfers thereof as provided in Section 2.16 of such Indenture, and that the transfer of the Securities does not require Registration under the Securities Act of 1933, as amended (the "Act"), because:\*

Such Security is being acquired for the Transferor's own account, without transfer (in satisfaction of Section 2.16 of the Indenture); or

such Security is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Act), in reliance on Rule 144A; or

such Security is being transferred to an institutional "accredited investor" (within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Act) which delivers a certificate to the Trustee in the form of Exhibit E to the Indenture; or

such Security is being transferred in reliance on Rule 144 under the Act; or

[ ] such Security is being transferred in reliance on and in compliance with an exemption from the Registration requirements of the Act other than Rule 144A or Rule 144 under the Act to a person other than an institutional "accredited investor." An Opinion of Counsel to the effect that such transfer does not require Registration under the Securities Act accompanies this certification.

-----  
[INSERT NAME OF TRANSFEROR]

By: -----  
[Authorized Signatory]

Date: -----

\*Check applicable box.

## FORM OF TRANSFEREE LETTER OF REPRESENTATION

WESTINGHOUSE AIR BRAKE COMPANY  
 c/o THE BANK OF NEW YORK  
 101 Barclay Street,  
 Floor 21 West New York, New York 10286

Ladies and Gentlemen:

This certificate is delivered to request a transfer of \$\_\_\_\_\_ principal amount of the 9-3/8% Senior Notes due 2005 (the "Securities") of WESTINGHOUSE AIR BRAKE COMPANY (the "Company"). Upon transfer, the Securities would be registered in the name of the new beneficial owner as follows:

Name: \_\_\_\_\_  
 Address: \_\_\_\_\_  
 Taxpayer ID Number: \_\_\_\_\_

The undersigned represents and warrants to you that:

1. We are an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act of 1933 (the "Securities Act")) purchasing for our own account or for the account of such an institutional "accredited investor" at least \$250,000 principal amount of the Securities, and we are acquiring the Securities not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act. We have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risk of our investment in the Securities and we invest in or purchase securities similar to the Securities in the normal course of our business. We and any accounts for which we are acting are each able to bear the economic risk of our or its investment.

2. We understand that the Securities have not been registered under the Securities Act and, unless so registered, may not be sold except as permitted in the following sentence. We agree on our own behalf and on behalf of any investor account for which we are purchasing Securities to offer, sell or otherwise transfer such Securities prior to the date which is two years after the later of the date of original issue and the last date on which the Company or any affiliate of the Company was the owner of such Securities (or any predecessor thereto) (the "Resale Restriction Termination Date") only (a) to the Company, (b) pursuant to a registration

statement which has been declared effective under the Securities Act, (c) in a transaction complying with the requirements of Rule 144A under the Securities Act, to a person we reasonably believe is a qualified institutional buyer under Rule 144A (a "QIB") that purchases for its own account or for the account of a QIB and to whom notice is given that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act, (e) to an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act that is purchasing for its own account or for the account of such an institutional "accredited investor," in each case in a minimum principal amount of Securities of \$250,000, or (f) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of our property or the property of such investor account or accounts be at all times within our or their control and in compliance with any applicable state securities laws. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. If any resale or other transfer of the Securities is proposed to be made pursuant to clause (e) above prior to the Resale Restriction Termination Date, the transferor shall deliver a letter from the transferee substantially in the form of this letter to the Company and the Trustee, which shall provide, among other things, that the transferee is an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act and that it is acquiring such Securities for investment purposes and not for distribution in violation of the Securities Act. Each purchaser acknowledges that the Company and the Trustee reserve the right prior to any offer, sale or other transfer prior to the Resale Restriction Termination Date of the Securities pursuant to clause (d), (e) or (f) above to require the delivery of an opinion of counsel, certificates and/or other information satisfactory to the Company and the Trustee.

Dated: \_\_\_\_\_

TRANSFEEE: \_\_\_\_\_

By: \_\_\_\_\_

Form of Certificate To Be  
Delivered in Connection  
with Regulation S Transfers

-----, ----

WESTINGHOUSE AIR BRAKE COMPANY  
c/o THE BANK OF NEW YORK  
101 Barclay Street,  
Floor 21 West  
New York, New York 10286

Re: WESTINGHOUSE AIR BRAKE COMPANY  
(the "Company") 9-3/8% Senior  
Notes due 2005 (the "Securities")

Ladies and Gentlemen:

In connection with our proposed sale of \$\_\_\_\_\_ aggregate principal amount of the Securities, we confirm that such sale has been effected pursuant to and in accordance with Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), and, accordingly, we represent that:

(1) the offer of the Securities was not made to a person in the United States;

(2) either (a) at the time the buy offer was originated, the transferee was outside the United States or we and any person acting on our behalf reasonably believed that the transferee was outside the United States, or (b) the transaction was executed in, on or through the facilities of a designated off-shore securities market and neither we nor any person acting on our behalf knows that the transaction has been prearranged with a buyer in the United States;

(3) no directed selling efforts have been made in the United States in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S, as applicable;

(4) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act; and

(5) we have advised the transferee of the transfer restrictions applicable to the Securities.

You and the Company are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby. Defined terms used herein without definition have the respective meanings provided in Regulation S.

Very truly yours,

[Name of Transferor]

By: \_\_\_\_\_  
[Authorized Signatory]

=====

CREDIT AGREEMENT

Dated as of June 30, 1998,

and Amended and Restated as of October 2, 1998

Among

WESTINGHOUSE AIR BRAKE COMPANY,

THE FINANCIAL INSTITUTIONS LISTED ON SCHEDULE 2.01,

THE CHASE MANHATTAN BANK,  
as Swingline Lender,  
Administrative Agent and Collateral Agent,

CHASE MANHATTAN BANK DELAWARE,  
as Issuing Bank,

THE BANK OF NEW YORK,  
as Documentation Agent

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CREDIT AGREEMENT dated as of June 30, 1998 and amended and restated as of October 2, 1998, among WESTINGHOUSE AIR BRAKE COMPANY, a Delaware corporation (the "Borrower"); the financial institutions from time to time party hereto, initially consisting of those listed on Schedule 2.01 (together with the Swingline Lender (as defined below), the "Lenders"); THE CHASE MANHATTAN BANK, a New York banking corporation, as swingline lender (in such capacity, the "Swingline Lender") and as administrative agent (in such capacity, the "Administrative Agent") and collateral agent (in such capacity, the "Collateral Agent") for the Lenders; CHASE MANHATTAN BANK DELAWARE, a Delaware banking corporation, as issuing bank (in such capacity, the "Issuing Bank"); and THE BANK OF NEW YORK ("BNY"), a New York banking corporation, as Documentation Agent for the Lenders.

The Borrower has requested the Lenders to extend credit in the form of (a) the continuation of outstanding June 1998 Term Loans (such term and each other capitalized term used but not defined in this introductory statement having the meaning given such term in Article I) in an aggregate principal amount not in excess of \$170,000,000, (b) September 1998 Term Loans in an aggregate principal amount not in excess of \$40,000,000 and (c) Revolving Loans, at any time and from time to time prior to the Revolving Credit Maturity Date, in an aggregate principal amount at any time outstanding not in excess of \$140,000,000 minus the L/C Exposure and Swingline Exposure at such time. The Borrower has requested the Swingline Lender to extend credit, at any time and from time to time prior to the Revolving Credit Maturity Date, in the form of Swingline Loans in an aggregate principal amount at any time outstanding not in excess of \$5,000,000. The Borrower has requested the Issuing Bank to issue Letters of Credit, in an aggregate face amount at any time outstanding not in excess of \$50,000,000, to support payment obligations incurred in the ordinary course of business by the Borrower and its Subsidiaries.

On the Closing Date, the Borrower used proceeds of (a) the June 1998 Term Borrowings and (b) a portion of the available Revolving Credit Commitments solely to repay in full all loans outstanding under the Original Credit Agreement and to pay fees, expenses, indemnities or other obligations of the Borrower payable thereunder in connection with the repayment in full of such loans or otherwise, in accordance with the terms of the Original Credit Agreement.

On the Effective Date, (a) the June 1998 Term Borrowings and (b) the Revolving Credit Borrowings outstanding on such date will be continued. The Borrower will use proceeds of (a) the September 1998 Term Borrowings, (b) a portion of the available Revolving Credit Commitments and (c) the Rockwell Senior Unsecured Credit Facility Loans to make the Rockwell Acquisition and to pay fees and expenses incurred in connection therewith.

The proceeds of Revolving Credit Borrowings (other than Revolving Credit Borrowings made on the Effective Date and used in accordance with the immediately preceding paragraph) will be used by the Borrower for general corporate purposes in the ordinary course of the Borrower's business, including the making of Acquisitions.

The proceeds of Swingline Loans will be used by the Borrower for general corporate purposes in the ordinary course of the Borrower's business. Letters of Credit are to be used in the ordinary course of business.

The Lenders and the Swingline Lender are willing to extend such credit to the Borrower and the Issuing Bank is willing to issue Letters of Credit for the account of the Borrower on the terms and subject to the conditions set forth herein. Accordingly, the parties hereto agree as follows:

#### ARTICLE I. DEFINITIONS

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any ABR Term Loan, ABR Revolving Loan or Swingline Loan.

"ABR Revolving Loan" shall mean any Revolving Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"ABR Term Loan" shall mean any Term Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"Acquisitions" shall have the meaning assigned to such term in Section 6.05.

"Adjusted LIBO Rate" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the product of (a) the LIBO Rate in effect for such Interest Period and (b) Statutory Reserves.

"Administration Agent Fees" shall have the meaning assigned to such term in Section 2.05.

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form of Exhibit A.

"Affiliate" shall mean, when used with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Agents" shall have the meaning assigned to such term in Article VIII.

"Aggregate Revolving Credit Exposure" shall mean the aggregate amount of the Lenders' Revolving Credit Exposures.

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest effort) that it is unable to ascertain the Base CD Rate or the Federal Funds Effective Rate or both for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the terms thereof, the Alternate Base Rate shall be determined without regard to clause (b) or (c), or both, of the first sentence of this definition, as appropriate, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate, respectively.

"Alternative Currency" shall mean any freely available currency that is freely transferrable and freely convertible into Dollars and requested by the Borrower and acceptable to the Issuing Bank and the Administrative Agent.

"Alternative Currency L/C Exposure" shall mean, at any time, the Assigned Dollar Value of the aggregate undrawn amount of all outstanding Letters of Credit denominated in an Alternative Currency at such time.

"Amendment Agreement" shall mean the Amendment Agreement dated as of October 2, 1998, among the Borrower, the Guarantors and the financial institutions listed on the signature pages thereto.

"Applicable Percentage" shall mean, with respect to any Eurodollar Loan or ABR Loan, or with respect to the Commitment Fees, the applicable percentage set forth below under the caption "Eurodollar Spread", "ABR Spread" or "Fee Percentage", as applicable, based upon the ratios described below:

	Eurodollar Spread	ABR Spread	Fee Percentage
-----			
Category 0			
-----			
Leverage Ratio of greater than or equal to 3.75 to 1.00	1.50%	0.50%	0.375%
-----			
Category 1			
-----			
Leverage Ratio of less than 3.75 to 1.00 and greater than or equal to 3.25 to 1.00	1.25%	0.25%	0.375%
-----			
Category 2			
-----			
Leverage Ratio of less than 3.25 to 1.00 and greater than or equal to 3.00 to 1.00	1.00%	0.00%	0.375%
-----			
Category 3			
-----			
Leverage Ratio of less than 3.00 to 1.00 and greater than or equal to 2.00 to 1.00	0.875%	0.00%	0.300%
-----			
Category 4			
-----			
Leverage Ratio of less than 2.00 to 1.00 and greater than or equal to 1.00 to 1.00	0.75%	0.00%	0.25%
-----			
Category 5			
-----			
Leverage Ratio of less than 1.00 to 1.00	0.625%	0.00%	0.25%
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For purposes of the foregoing, the Applicable Percentage for any date shall be (i) if such date is prior to the availability of financial statements for the fiscal quarter of the Borrower ending June 30, 1998, as set forth in Category 2, and (ii) otherwise, determined by reference to the Leverage Ratio as of the last day of the Borrower's fiscal quarter most recently ended as of such date. Any change in the Applicable Percentage shall become effective on the first day on which financial statements with respect to such fiscal quarter are available.

"Assessment Rate" shall mean for any date the annual rate (rounded upwards, if necessary, to the next 1/100 of 1%) most recently estimated by the Administrative Agent as the then current net annual assessment rate that will be employed in determining amounts payable by the Administrative Agent to the Federal Deposit Insurance Corporation (or any successor) for insurance by such Corporation (or such successor) of time deposits made in dollars at the Administrative Agent's domestic offices.

"Assigned Dollar Value" shall mean (a) in respect of the undrawn amount of any Letter of Credit denominated in an Alternative Currency, the Dollar Equivalent thereof determined based upon the applicable Spot Exchange Rate as of (i) the date of issuance of such Letter of Credit, until the first Calculation Date thereafter and (ii) thereafter, the most recent Calculation Date and (b) in respect of an L/C Disbursement denominated in an Alternative Currency, the Dollar Equivalent thereof determined based upon the applicable Spot Exchange Rate as of the date such L/C Disbursement was made.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an assignee, and accepted by the Administrative Agent, in the form of Exhibit B or such other form as shall be approved by the Administrative Agent.

"Attributable Debt" in respect of a Sale and Leaseback Transaction shall mean, at the time of determination, the present value (discounted at the actual rate of interest implicit in such transaction) of the obligation of the lessee for net rental payments during the remaining terms of the lease included in such a Sale and Leaseback Transaction (including any period for which such lease has been extended or may, at the option of the lessor, be extended).

"Base CD Rate" shall mean the sum of (a) the product of (i) the Three-Month Secondary CD Rate and (ii) Statutory Reserves and (b) the Assessment Rate.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States.

"Borrowing" shall mean a group of Loans of a single Type made by the Lenders on a single date and as to which a single Interest Period is in effect.

"Borrowing Request" shall mean a request by the Borrower in accordance with the terms of Section 2.03 and in the form of Exhibit C.

"Business Day" shall mean any day other than a Saturday, Sunday or day on which banks in New York City are authorized or required by law to close; provided, however, that when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in Dollar deposits in the London interbank market.

"Calculation Date" shall mean the last Business Day of each calendar month.

"Capital Expenditures" shall mean, for any period, the sum of all amounts that would, in accordance with GAAP, be included as additions to property, plant and equipment and other capital expenditures on a consolidated statement of cash flows for the Borrower for such period. Notwithstanding the foregoing, the term "Capital Expenditures" shall not include capital expenditures in respect of the reinvestment of sales proceeds, insurance proceeds and condemnation proceeds received by the Borrower or any Subsidiary in connection with the sale, transfer or other disposition of the Borrower's business units, assets or properties, if (as contemplated by the definition of the term "Prepayment Event") such reinvestment (including, in the case of insurance proceeds, reinvestment in the form of restoration or replacement of damaged property) shall have resulted in the event giving rise to the receipt of such amounts not constituting a Prepayment Event.

"Capital Lease Obligations" of any Person shall mean the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Cardo" shall mean Orekron Holding AB, a Swedish corporation (formerly known as Investment AB Cardo).

"Cash Interest Expense" shall mean, for any period, the gross interest expense of the Borrower and the Subsidiaries for such period, excluding any fees (other than the Commitment Fee) and expenses payable or amortized during such period by the Borrower in connection with the recapitalization transactions of the Borrower and the Subsidiaries consummated on or about January 31, 1995, less gross interest income of the Borrower and the Subsidiaries for such period, in each case determined on a consolidated basis in accordance with GAAP.

"Casualty" shall have the meaning assigned to such term in Section 9.16.

A "Change in Control" shall be deemed to have occurred if (a) any Person or group (within the meaning of Rule 13d-5 under the Securities Exchange Act of 1934 as in effect on the Closing Date) (other than any (i) Designated Person or (ii) combination of

Designated Persons) shall own directly or indirectly, beneficially or of record, shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; (b) Designated Persons or a combination of Designated Persons shall cease to own, beneficially and of record, shares representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower (35% if the Common Stock is registered pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934); or (c) the Continuing Directors shall cease to occupy a majority of the seats (excluding vacant seats) on the board of directors of the Borrower.

"Closing Date" shall mean the date on which the conditions specified in Section 4.02 are satisfied (or waived in accordance with Section 9.08).

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall mean all the "Collateral" as defined in any Security Document and shall also include the Mortgaged Properties.

"Commitment" shall mean, with respect to any Lender, such Lender's Revolving Credit Commitment, Term Loan Commitment and Swingline Commitment and, with respect to the Issuing Bank, its L/C Commitment.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.05.

"Common Stock" shall mean the common stock, par value \$.01 per share, of the Borrower.

"Condemnation" shall have the meaning assigned to such term in Section 9.16.

"Condemnation Proceeds" shall have the meaning assigned to such term in Section 9.16.

"Confidential Information Memorandum" shall mean the Confidential Information Memorandum of the Borrower dated May 1998.

"Continuing Directors" shall mean, collectively, (a) all members of the board of directors of the Borrower who have held office continuously since January 31, 1995, and (b) all members of the board of directors of the Borrower who assumed office after January 31, 1995, and whose election and nomination for election by the Borrower's shareholders was approved by a vote of a majority of the then Continuing Directors.

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and the terms "Controlling" and "Controlled" shall have meanings correlative thereto.

"Credit Event" shall have the meaning assigned to such term in Section 4.01.

"Current Assets" shall mean, as of any date, the total assets (excluding cash and cash equivalents) that would properly be classified as current assets of the Borrower and its subsidiaries as of such date determined on a consolidated basis in accordance with GAAP.

"Current Liabilities" shall mean, as of any date, the total liabilities (excluding indebtedness for borrowed money) that would properly be classified as current liabilities of the Borrower and its subsidiaries as of such date determined on a consolidated basis in accordance with GAAP.

"Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"Designated Person" shall mean Incentive AB or SIH or any of their respective subsidiaries, Vestar or Vestar Capital or any of their respective Controlled Affiliates, the ESOP, the Voting Trust and any person or entity holding a beneficial interest in the Voting Trust on January 31, 1995 (or in the case of any such person or entity, their permitted transferees (as defined in the Voting Trust Agreement)).

"Dollar Equivalent" shall mean, with respect to an amount of any Alternative Currency on any date, the amount of Dollars that may be purchased with such amount of such Alternative Currency at the Spot Exchange Rate with respect to such Alternative Currency on such date.

"Dollars" or "\$" shall mean lawful money of the United States of America.

"Domestic Subsidiary" shall mean any Subsidiary incorporated under the laws of the United States or any political subdivision thereof.

"EBITDA" shall mean, for any period, without duplication, the sum of (a) Net Income for such period, (b) all Federal, state, local and foreign income taxes deducted in determining such Net Income, (c) interest expense deducted in determining such Net Income and (d) depreciation, amortization and other noncash charges (including any charges resulting from the write-up of inventory but not including accruals of charges which will be discharged in a following accounting period in cash in the ordinary course of business) deducted in determining such Net Income (and not already excluded from the definition of the term "Net Income"). Solely for purposes of calculating the Leverage Ratio, EBITDA

shall include, without duplication, the sum of the amounts expressed in clauses (a), (b), (c) and (d) above with respect to any Person or division or line of business the assets of which, or shares or other equity interests in, are acquired by the Borrower or any Subsidiary after the Closing Date in accordance with Section 6.05(i) as if the related Acquisition had occurred on the first day of the period for which EBITDA is being calculated hereunder.

"Effective Date" shall mean the Effective Date as defined in the Amendment Agreement.

"environment" shall mean ambient air, surface water and groundwater (including potable water, navigable water and wetlands), the land surface or subsurface strata, the workplace or as otherwise defined in any Environmental Law.

"Environmental Claim" shall mean any written accusation, allegation, notice of violation, claim, demand, order, directive, cost recovery action or other cause of action by, or on behalf of, any Governmental Authority or any Person for damages, injunctive or equitable relief, personal injury (including sickness, disease or death), Remedial Action costs, tangible or intangible property damage, natural resource damages, nuisance, pollution, any adverse effect on the environment caused by any Hazardous Material, or for fines, penalties or restrictions, resulting from or based upon: (a) the existence, or the continuation of the existence, of a Release (including sudden or non-sudden, accidental or non-accidental Releases); (b) exposure to any Hazardous Material; (c) the presence, use, handling, transportation, storage, treatment or disposal of any Hazardous Material; or (d) the violation or alleged violation of any Environmental Law or Environmental Permit.

"Environmental Law" shall mean any and all applicable present and future treaties, laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, enforceable notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, Release or threatened Release of any Hazardous Material or to health and safety matters, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. Section 9601 et seq. (collectively "CERCLA"), the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Amendments of 1984, 42 U.S.C. Section 6901 et seq., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 U.S.C. Section 1251 et seq., the Clean Air Act of 1970, as amended 42 U.S.C. Section 7401 et seq., the Toxic Substances Control Act of 1976, 15 U.S.C. Section 2601 et seq., the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. Section 651 et seq., the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 et seq., the Safe Drinking Water Act of 1974, as amended, 42 U.S.C. Section 300(f) et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq., and any similar or implementing state or local law, and all amendments or regulations promulgated thereunder.

"Environmental Permit" shall mean any applicable permit, approval, authorization, certificate, license, variance, filing or permission required by or from any Governmental Authority pursuant to any Environmental Law.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code, or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ESOP" shall mean collectively the Westinghouse Air Brake Company Employee Stock Ownership Plan effective January 1, 1995, and the Westinghouse Air Brake Company Employee Stock Ownership Trust established effective January 1, 1995, pursuant to the Trust Agreement between the Borrower and U.S. Trust Company of California, N.A., as Trustee (the "ESOP Trustee"), as such plan and trust may be amended, modified or supplemented from time to time.

"ESOP Loan" shall mean the loan made by the Borrower to the ESOP on January 31, 1995, in an aggregate principal amount equal to the ESOP Purchase Amount.

"ESOP Note" shall mean the promissory note of the ESOP evidencing the ESOP Loan.

"ESOP Purchase" shall mean the purchase on January 31, 1995, by the ESOP of shares of Common Stock pursuant to the ESOP Purchase Agreement at a price of \$60,000 per share.

"ESOP Purchase Agreement" shall mean the stock purchase agreement dated January 31, 1995 among the ESOP Trustee, the Borrower and the other persons signatory thereto.

"ESOP Purchase Amount" shall mean the \$140,040,000 paid by the ESOP to effect the ESOP Purchase.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Loan" shall mean any Eurodollar Revolving Loan or Eurodollar Term Loan.

"Eurodollar Revolving Loan" shall mean any Revolving Loan bearing interest at a rate determined by reference to the Adjusted LIBO Rate in accordance with the provisions of Article II.

"Eurodollar Term Loan" shall mean any Term Loan bearing interest at a rate determined by reference to the Adjusted LIBO Rate in accordance with the provisions of Article II.

"Event of Default" shall have the meaning assigned to such term in Article VII.

"Excess Cash Flow" shall mean, for any period, EBITDA for such period, minus (a) the sum of (i) Capital Expenditures for such period and the amount of Capital Expenditures that the Borrower has committed, pursuant to arrangements satisfactory to the Administrative Agent, to make during the first 60 days of the next succeeding period, (ii) increases in Net Working Capital during such period, (iii) decreases in Long-term Reserves during such period, (iv) all Federal, state, local and foreign income taxes added back to Net Income to determine EBITDA for such period, (v) Cash Interest Expense for such period, (vi) all scheduled debt amortization during such period and all prepayments of Term Loans pursuant to Section 2.12(a) during such period and (vii) cash amounts expended by the Borrower to repurchase Common Stock from the ESOP for a repurchase price in such period not in excess of the cash amount expended during such period pursuant to clause (b) of Section 6.06 plus (b) the sum of (i) decreases in Net Working Capital during such period and (ii) increases in Long-term Reserves during such period.

"Exchange Notes" shall have the meaning set forth in the Rockwell Senior Unsecured Credit Agreement.

"Existing Letters of Credit" shall mean all the letters of credit that (a) were issued under the Original Credit Agreement and (b) are outstanding on the Closing Date.

"Existing Swingline Loans" shall mean all the loans that (a) were made in accordance with Section 2.20 hereunder prior to the Effective Date and (b) are outstanding on the Effective Date.

"Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Fee Letter" shall mean the Fee Letter dated May 26, 1998, among the Borrower, the Administrative Agent and Chase Securities Inc.

"Fees" shall mean the Commitment Fees, the Administration Agent Fees, the L/C Participation Fees and the Issuing Bank Fees.

"Financial Officer" of any corporation shall mean the chief financial officer, principal accounting officer, treasurer or controller of such corporation.

"Foreign Subsidiary" shall mean any Subsidiary other than a Domestic Subsidiary.

"GAAP" shall mean generally accepted accounting principles in the United States applied on a consistent basis.

"Governmental Authority" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Guarantee" of or by any Person shall mean any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness; provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantee Agreement" shall mean the Guarantee Agreement, substantially in the form of Exhibit D, made by the Guarantors in favor of the Collateral Agent for the benefit of the Secured Parties.

"Guarantor" shall mean each existing and each subsequently acquired or organized Domestic Subsidiary.

"Hazardous Materials" shall mean all explosive or radioactive substances or wastes, hazardous or toxic substances or wastes, pollutants, solid, liquid or gaseous wastes, including petroleum or petroleum distillates, friable asbestos or asbestos-containing materials, polychlorinated biphenyls ("PCBs") or PCB-containing materials or equipment, radon gas, infectious or medical wastes regulated pursuant to any Environmental Law and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Indebtedness" of any Person shall mean, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable and accrued obligations incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations of such Person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (j) all obligations of such Person as an account party in respect of (i) letters of credit and (ii) bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which such Person is a general partner or member, other than to the extent that the instrument or agreement evidencing such Indebtedness expressly limits the liability of such Person in respect thereof pursuant to provisions and terms reasonably satisfactory to the Administrative Agent.

"Indemnity, Subrogation and Contribution Agreement" means the Indemnity, Subrogation and Contribution Agreement, substantially in the form of Exhibit J, among the Borrower, the Guarantors and the Administrative Agent.

"Insurance Proceeds" shall have the meaning assigned to such term in Section 9.16.

"Intellectual Property Security Agreement" shall mean the Intellectual Property Security Agreement, substantially in the form of Exhibit E, between the Loan Parties and the Collateral Agent for the benefit of the Secured Parties.

"Interest Expense Coverage Ratio" shall mean, for any period, the ratio of (a) EBITDA for such period to (b) Cash Interest Expense for such period.

"Interest Payment Date" shall mean, with respect to any Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day that would have been an Interest Payment Date had successive Interest Periods of three months' duration been applicable to such Borrowing, and, in addition, the date of any refinancing or conversion of such Borrowing with or to a Borrowing of a different Type.

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing or on the last day of the immediately preceding Interest Period applicable to such Borrowing, as the case may be, and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months (or, if available to all the Lenders, 9 or 12 months) thereafter, as the Borrower may elect and (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing or on the last day of the immediately preceding Interest Period applicable to such Borrowing, as the case may be, and ending on the earliest of (i) the next succeeding March 31, June 30, September 30 or December 31 and (ii) the Revolving Credit Maturity Date, the June 1998 Term Loan Maturity Date or the September 1998 Term Loan Maturity Date, as applicable; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Issuing Bank Fees" shall have the meaning assigned to such term in Section 2.05.

"June 1998 Term Borrowing" shall mean a Borrowing comprised of June 1998 Term Loans.

"June 1998 Term Loan Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make June 1998 Term Loans hereunder as set forth in Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its June 1998 Term Loan Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04.

"June 1998 Term Loan Maturity Date" shall mean December 31, 2003.

"June 1998 Term Loan Repayment Date" shall have the meaning assigned to such term in Section 2.11(a).

"June 1998 Term Loans" shall mean the term loans to the Borrower continued by the Lenders pursuant to Section 2.01(a). Each June 1998 Term Loan shall be either a Eurodollar Term Loan or an ABR Term Loan.

"L/C Commitment" shall mean the commitment of the Issuing Bank to issue Letters of Credit pursuant to Section 2.21.

"L/C Disbursement" shall mean a payment or disbursement made by the Issuing Bank pursuant to a Letter of Credit.

"L/C Exposure" shall mean at any time the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time that are denominated in Dollars, plus the Assigned Dollar Value at such time of the aggregate undrawn amount of all outstanding Letters of Credit at such time that are denominated in Alternative Currencies, plus (b) the aggregate principal amount of all L/C Disbursements denominated in Dollars that have not yet been reimbursed at such time plus the Assigned Dollar Value at such time of the aggregate principal amount of all L/C Disbursements denominated in Alternative Currencies that have not yet been reimbursed at such time. The L/C Exposure of any Revolving Credit Lender at any time shall mean its Pro Rata Percentage of the aggregate L/C Exposure at such time.

"L/C Participation Fee" shall have the meaning assigned to such term in Section 2.05.

"Letter of Credit" shall mean any letter of credit issued pursuant to Section 2.21.

"Leverage Ratio" shall mean, as of any date, the ratio of (a) the sum of (i) the aggregate principal amount of Loans and Senior Unsecured Notes outstanding as of such date, (ii) the aggregate principal amount of the Long-Term Pulse Seller Note outstanding as of such date, (iii) the aggregate principal amount of the Rockwell Senior Unsecured Credit Facility Loans and Exchange Notes outstanding as of such date and (iv) without duplication, the aggregate principal amount of all other indebtedness for borrowed money of the Borrower and the Subsidiaries outstanding as of such date, to (b) EBITDA for the period of twelve consecutive fiscal months ended on such date.

"LIBO Rate" shall mean (a) the rate per annum for dollar deposits approximately equal to the applicable Eurodollar Borrowing and for a period comparable to the applicable Interest Period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on the day that is two Business Days prior to the first day of such Interest Period and (b) if no such rate so appears on the Telerate Page 3750, the arithmetic mean, determined by the Administrative Agent based on quotations provided by each of the Reference Lenders, of the respective rates per annum at which dollar deposits approximately equal to each Reference Lender's respective portion of the applicable Eurodollar Borrowing and for a period comparable to the applicable Interest Period are offered to the principal London office of such Reference Lender in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, on the day that is two Business

Days prior to the first day of such Interest Period. The term "Telerate Page 3750" shall mean the display designated as "Page 3750" on the Telerate Service (or such other page as may replace such page on such service for the purpose of displaying comparable rates). The term "Reference Lenders" shall mean The Chase Manhattan Bank and BNY.

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset, (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities and (d) any zoning or land use restrictions relating to such asset; and shall include any agreement to give any of the foregoing.

"Loan Documents" shall mean this Agreement, the Letters of Credit, the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement, the Security Documents and any Rate Protection Agreements.

"Loan Parties" shall mean the Borrower and the Guarantors.

"Loans" shall mean the Revolving Loans, the Term Loans and the Swingline Loans.

"Long-Term Pulse Seller Note" shall mean the unsecured promissory note of the Borrower issued in connection with the Pulse Acquisition and dated as of January 31, 1995, that (a) has an interest rate equal to (i) 9.5% per annum through January 31, 1998, (ii) the Prime Rate on December 31, 1997, plus 1% per annum (but not in excess of 11.5% per annum) from February 1, 1998, through January 31, 2001, and (iii) the lowest of (A) the Prime Rate on December 31, 2000, plus 1% per annum, (B) the rate applicable pursuant to clause (ii) above plus 2% per annum and (C) 13% per annum, thereafter, (b) has a stated maturity of not earlier than January 31, 2004, (c) does not have any payments of principal due any earlier than the stated maturity, (d) has a principal amount as of the Closing Date of \$16,990,000, (e) may provide that the aggregate principal amount thereof may be discharged in whole or in part through the issuance of shares of Common Stock and (f) is subordinated to the Obligations pursuant to the Pulse Subordination Agreement.

"Long-term Reserves" shall mean, as of any date, the non-current liabilities of the Borrower and the Subsidiaries as of such date in respect of (a) pension benefits, (b) post-retirement benefits other than pensions, such as retirement health care and life insurance benefits, and (c) post-employment benefits, in each case determined on a consolidated basis in accordance with GAAP.

"Management/Vestar Repurchase Agreement" shall mean the Repurchase Agreement dated as of January 31, 1995, between the Borrower and the Voting Trust.

"Margin Stock" shall have the meaning assigned to such term in Regulation U.

"Material Adverse Effect" shall mean a (a) materially adverse effect on the business, assets, operations, properties, financial condition, contingent liabilities or material agreements of the Borrower and the Subsidiaries taken as a whole, (b) material impairment of the ability of the Borrower or any Subsidiary to perform any of its material obligations under any Loan Document to which it is or will be a party or (c) material impairment of the rights of or benefits available to the Lenders under any Loan Document.

"Moody's" shall mean Moody's Investors Service, Inc.

"Mortgaged Properties" shall mean the owned real properties and leasehold and subleasehold interests of the Loan Parties specified on Schedule 1.01.

"Mortgages" shall mean the mortgages, deeds of trust, leasehold mortgages, assignments of leases and rents, modifications and other security documents delivered pursuant to clause (i) of Section 4.02(j) or pursuant to Section 5.11, each substantially in the form of Exhibit F.

"Multiemployer Plan" shall mean (a) a multiemployer plan as defined in Section 4001(a)(3) of ERISA to which the Borrower or any Subsidiary or ERISA Affiliate is making or accruing an obligation to make contributions and (b) any multiemployer plan (as so defined) to which the Borrower or any subsidiary or ERISA Affiliate has within any of the preceding five plan years made or accrued an obligation to make contributions, but in the case of this clause (b) only if the Borrower, a Subsidiary or an ERISA Affiliate of either would be liable under Title IV of ERISA in respect of such plan.

"Net Cash Proceeds" shall mean, with respect to any Prepayment Event or other event, (a) the gross proceeds in the form of cash or Permitted Investments (including insurance proceeds, condemnation awards and payments from time to time in respect of installment obligations, if applicable) received by or on behalf of the Borrower or any Subsidiary in respect of such Prepayment Event or other event less (b) the sum of (i) in the case of any Prepayment Event, the amount, if any, of all taxes (other than income taxes) payable by the Borrower or any Subsidiary in connection with such Prepayment Event and the Borrower's good-faith best estimate of the amount of all income taxes payable in connection with such Prepayment Event, (ii) in the case of a Prepayment Event that is an asset sale or disposition, the amount of any reasonable reserve established in accordance with GAAP against any liabilities associated with the assets sold or disposed of and retained by the Borrower or any Subsidiary, provided that the amount of any subsequent reduction of

such reserve (other than in connection with a payment in respect of any such liability) shall be deemed to be Net Cash Proceeds of a Prepayment Event occurring on the date of such reduction, and (iii) reasonable and customary fees, commissions and expenses and other costs paid by the Borrower or any Subsidiary in connection with such Prepayment Event or other event, in each case only to the extent not already deducted in arriving at the amount referred to in clause (a) above.

"Net Income" shall mean, for any period, the aggregate net income (or net deficit) of the Borrower and the Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, which shall be equal to gross revenues for the Borrower and the Subsidiaries determined on a consolidated basis during such period less the aggregate for the Borrower and the Subsidiaries determined on a consolidated basis during such period of, without duplication, (a) cost of goods sold, (b) interest expense, (c) operating expenses, (d) selling, general and administrative expenses, (e) taxes, (f) depreciation, depletion and amortization of properties and (g) any other items that are treated as expense under GAAP, all computed in accordance with GAAP; provided, however that the term "Net Income" shall exclude extraordinary gains and losses from the sale of assets other than in the ordinary course of business and other noncash income not otherwise excluded from the definition of the term "Net Income" and any charge resulting from the write-up after the Closing Date in the value of any asset.

"Net Working Capital" shall mean, as of any date, Current Assets as of such date less Current Liabilities as of such date.

"Obligations" shall mean all obligations defined as "Obligations" in the Guarantee Agreement and the Security Documents.

"Original Credit Agreement" shall mean the Credit Agreement dated as of January 31, 1995, amended and restated as of February 15, 1995, amended and restated as of June 9, 1995, amended and restated as of September 19, 1996, and subsequently amended, as in effect immediately prior to the Closing Date, among the Borrower, the financial institutions party thereto, The Chase Manhattan Bank, as swingline lender, administrative agent and collateral agent, Chase Manhattan Bank Delaware, as issuing bank, and The Bank of New York, as documentation agent.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"Perfection Certificate" shall mean the Perfection Certificate substantially in the form of Annex 2 to the Security Agreement.

"Permitted Investments" shall mean:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within 90 days from the date of acquisition thereof;

(b) without limiting the provisions of clause (d) below, investments in commercial paper maturing within 90 days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from Standard & Poor's or from Moody's;

(c) investments in certificates of deposit, bankers' acceptances and time deposits maturing within 90 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, (i) any domestic office of the Administrative Agent or (ii) any domestic office of any other commercial bank organized under the laws of the United States of America or any State thereof, or any Lender that is a commercial bank, that has a combined capital and surplus and undivided profits of not less than \$250,000,000 and that is rated (or the senior debt securities of the holding company of such commercial bank are rated) A or better by Standard & Poor's or A2 or better by Moody's or carrying an equivalent rating by another nationally recognized rating agency if neither of the two named rating agencies shall rate such commercial bank (or the holding company of such commercial bank);

(d) investments in commercial paper maturing within 90 days from the date of acquisition thereof and issued by (i) the holding company of the Administrative Agent or (ii) the holding company of any other commercial bank of recognized standing organized under the laws of the United States of America or any state thereof, or any Lender that is a commercial bank, that has (A) a combined capital and surplus in excess of \$250,000,000 and (B) commercial paper rated at least A-1 or the equivalent thereof by Standard & Poor's or at least P-I or the equivalent thereof by Moody's, or carrying an equivalent rating by another nationally recognized rating agency if neither of the two named rating agencies rate such holding company;

(e) repurchase agreements having a term of seven days or fewer with (i) any domestic office of the Administrative Agent or (ii) any domestic office of any other commercial bank of recognized standing organized under the laws of the United States of America or any state thereof, or any Lender that is a commercial bank, that has a combined capital and surplus and undivided profits of not less than \$250,000,000 and that is rated (or the senior debt securities of the holding company of such commercial bank are rated) A or better by Standard & Poor's or A2 or better

by Moody's or carrying an equivalent rating by another nationally recognized rating agency if neither of the two named rating agencies shall rate such commercial bank (or the holding company of such commercial bank), and relating to marketable direct obligations issued or unconditionally guaranteed by the United States but only if the securities collateralizing such repurchase agreements are delivered to or to the order of the Collateral Agent; and

(f) other investment instruments approved in writing by the Required Lenders and offered by financial institutions that have a combined capital and surplus and undivided profits of not less than \$250,000,000.

"Person" shall mean any natural person, corporation, business trust, joint venture, association, company, limited liability company, partnership or Governmental Authority.

"Plan" shall mean any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code that is maintained for current or former employees, or any beneficiary thereof, of the Borrower, any Subsidiary or any ERISA Affiliate.

"Pledge Agreement" shall mean the Pledge Agreement, substantially in the form of Exhibit G, among the Borrower, the Subsidiaries party thereto and the Collateral Agent for the benefit of the Secured Parties.

"Prepayment Account" shall have the meaning assigned to such term in Section 2.12.

"Prepayment Event" shall mean (a) any sale, transfer or other disposition of any business units, assets or other properties of the Borrower or any Subsidiary (including dispositions in the nature of casualties (to the extent covered by insurance) or condemnations (including any Casualty or Condemnation in respect of any Mortgaged Property, as contemplated by Section 9.16)) to the extent the proceeds thereof, combined with the proceeds of any other such sale, transfer or other disposition (other than sales, transfers or dispositions referred to in clauses (i) through (iv) below) that have not been applied as a mandatory prepayment pursuant to Section 2.12(c), are in excess of \$5,000,000 in the aggregate, (b) the issuance or incurrence by the Borrower or any Subsidiary of any Indebtedness (excluding any Indebtedness incurred in accordance with Section 6.01), or the issuance or sale by the Borrower or any Subsidiary of any debt securities or any obligations convertible into or exchangeable for, or giving any Person or entity any right, option or warrant to acquire from the Borrower or any Subsidiary any Indebtedness or any such debt securities or any such convertible or exchangeable obligations (excluding the Long-Term Pulse Seller Note), other than Rockwell Prepayment Indebtedness, or (c) the issuance or sale

by the Borrower or any Subsidiary of any equity securities or any obligations convertible into or exchangeable for, or giving any Person any right, option or warrant to acquire from the Borrower or any Subsidiary, any equity securities or any such convertible or exchangeable obligations. Notwithstanding the foregoing, the term "Prepayment Event" shall not include:

(i) sales, transfers and other dispositions of used or surplus equipment, vehicles and other assets in the ordinary course of business permitted by Section 6.05(b), except to the extent the proceeds thereof are in excess of \$3,000,000 in the aggregate in any fiscal year; provided, however, that to the extent that the Borrower shall have reinvested on the date of such Prepayment Event (or certified to the Administrative Agent that it intends to reinvest within twelve months of such Prepayment Event) any of such excess proceeds in equipment, vehicles or other assets used in the principal lines of business of the Borrower, the resultant Prepayment Event shall be reduced by the amount so reinvested or to be reinvested;

(ii) sales of inventory in the ordinary course of business;

(iii) the receipt of insurance or condemnation proceeds (other than Condemnation Proceeds and Insurance Proceeds in respect of Mortgaged Properties), except to the extent in excess of \$3,000,000 in the aggregate in any fiscal year; provided, however, that to the extent that the Borrower shall have reinvested on the date of such Prepayment Event (or certified to the Administrative Agent that it intends to reinvest within twelve months of such Prepayment Event) any of such excess proceeds in equipment, vehicles or other assets used in the Borrower's principal lines of business, the resultant Prepayment Event shall be reduced by the amount so reinvested or to be reinvested;

(iv) the receipt of Condemnation Proceeds and Insurance Proceeds in respect of Mortgaged Properties to the extent that (A) such Condemnation Proceeds or Insurance Proceeds are used to restore, repair or locate, acquire and replace the related Mortgaged Property in accordance with Section 9.16, (B) such Condemnation Proceeds or Insurance Proceeds, pursuant to Section 9.16, are not otherwise required to be applied as a mandatory prepayment pursuant to Section 2.12(c) or (C) to the extent permitted by Section 9.16, (I) such Condemnation Proceeds or Insurance Proceeds are reinvested in equipment, vehicles or other assets used in the Borrower's principal lines of business within twelve months after the receipt thereof and (II) the Borrower, pending such reinvestment, has deposited such amounts in an escrow account with the Collateral Agent as contemplated in Section 9.16; and

(v) the receipt of Net Cash Proceeds in an aggregate amount not in excess of \$150,000,000 in respect of any of the events described in preceding clause (c) to the extent that such Net Cash Proceeds are used in the making of an Acquisition pursuant to Section 6.05(i) substantially contemporaneous with the receipt of such Net Cash Proceeds.

"Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective on the date such change is publicly announced as being effective.

"Pro Rata Percentage" of any Revolving Credit Lender at any time shall mean the percentage of the Total Revolving Credit Commitment represented by such Lender's Revolving Credit Commitment.

"Properties" shall have the meaning assigned to such term in Section 3.17.

"Pulse Acquisition" shall mean the acquisition on January 31, 1995 by Pulse Acquisition Corp. of certain assets of Pulse Electronics Inc. and Pulse Embedded Computer Systems, Inc. for an aggregate purchase price equal to \$54,900,000 payable in the form of the Long-Term Pulse Seller Notes.

"Pulse Subordination Agreement" shall mean the Subordination Agreement dated as of January 31, 1995 by and among the Borrower, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc., certain shareholders of Pulse Electronics, Inc., Cardo and the Administrative Agent.

"Rate Protection Agreements" shall mean any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or similar agreement entered into by the Borrower to provide protection to the Borrower and the Subsidiaries against fluctuations in interest rates. Each Rate Protection Agreement shall be on terms (including terms relating to the calculation of payments for early termination) reasonably satisfactory to the Administrative Agent with a counterparty that is either reasonably satisfactory to the Administrative Agent or a Lender.

"Recapitalization Documents" shall mean (a) the Loan Documents, (b) the ESOP Note, (c) the Management/Vestar Repurchase Agreement, (d) the Repurchase and Exchange Agreement, (e) the ESOP Purchase Agreement, (f) the Pulse Subordination Agreement, (g) the Stockholders Agreement dated January 31, 1995, among Cardo, SIH, the Voting Trust and the Borrower and (h) the constitutive documents of the ESOP.

"Register" shall have the meaning assigned to such term in Section 9.04(d).

"Regulation G" shall mean Regulation G of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Release" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing or depositing, or threat thereof, of any Hazardous Material in, into, onto or through the environment.

"Remedial Action" shall mean (a) "remedial action" as such term is defined in CERCLA, 42 U.S.C. Section 9601(24), and (b) all other actions required by any Governmental Authority or voluntarily undertaken to (i) clean up, remove, treat, abate or in any other way address any Hazardous Material in the environment, (ii) prevent the Release, or minimize the further Release of any Hazardous Material so it does not migrate or endanger or threaten to endanger public health, welfare or the environment, or (iii) perform studies and investigations in connection with, or as a precondition to, actions described in clauses (i) or (ii) above.

"Reportable Event" shall mean any reportable event as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event as to which the 30-day notice requirement has been waived).

"Repurchase and Exchange Agreement" shall mean the Repurchase and Exchange Agreement dated January 31, 1995, among the Borrower, Cardo and SIH.

"Required Lenders" shall mean, at any time, Lenders having Loans (excluding Swingline Loans), L/C Exposures, Swingline Exposures and unused Revolving Credit Commitments representing in excess of 50% of the sum of all Loans outstanding (excluding Swingline Loans), L/C Exposures, Swingline Exposures and unused Revolving Credit Commitments at such time.

"Responsible Officer" of any corporation shall mean any executive officer or Financial Officer of such corporation and any other officer or similar official thereof responsible for the administration of the obligations of such corporation in respect of this Agreement.

"Revolving Credit Borrowing" shall mean a Borrowing comprised of Revolving Loans.

"Revolving Credit Commitment" shall mean, with respect to any Lender, the commitment of such Lender to make Revolving Loans hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed

its Revolving Credit Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04.

"Revolving Credit Exposure" shall mean, with respect to any Lender at any time, the aggregate principal amount at such time of all outstanding Revolving Loans of such Lender, plus the aggregate amount at such time of such Lender's L/C Exposure, plus the aggregate amount at such time of such Lender's Swingline Exposure.

"Revolving Credit Lender" shall mean a Lender with a Revolving Credit Commitment.

"Revolving Credit Maturity Date" shall mean December 31, 2003.

"Revolving Loans" shall mean the revolving loans made by the Lenders to the Borrower pursuant to Section 2.01(c). Each Revolving Loan shall be a Eurodollar Revolving Loan or an ABR Revolving Loan.

"Rockwell" shall mean Rockwell Collins, Inc., a Delaware corporation.

"Rockwell Acquisition" shall mean the acquisition from Rockwell on October 5, 1998, by the Borrower of all of the common shares, no par value, of Technical Service and Marketing, L.L.C., a Delaware limited liability company, and substantially all of the assets and certain of the related liabilities of Rockwell's Railroad Electronics division for cash consideration of \$80,000,000 (subject to purchase price adjustments specified in the Sale Agreement) pursuant to the Sale Agreement, which shall be financed with the proceeds of (a) the September 1998 Term Borrowings, (b) a portion of the available Revolving Credit Commitments and (c) the Rockwell Senior Unsecured Credit Facility Loans.

"Rockwell Prepayment Indebtedness" shall mean (a) unsecured Indebtedness, (b) unsecured debt securities and (c) obligations convertible or exchangeable for, or rights, options or warrants to acquire, (i) unsecured Indebtedness or unsecured debt securities or (ii) obligations convertible into or exchangeable for unsecured Indebtedness or unsecured debt securities, in each case up to the amount whereby the Net Cash Proceeds therefrom equal the Rockwell Senior Unsecured Credit Facility Loans and Exchange Notes then outstanding (and other amounts, if any, then due and payable under the Rockwell Senior Unsecured Credit Facility Loan Documents) at the time of the related issuance, incurrence or sale, as applicable.

"Rockwell Senior Unsecured Credit Agreement" shall mean the credit agreement dated as of October 2, 1998, as such credit agreement may be amended, waived or otherwise modified thereafter, among the Borrower, the financial institutions party thereto, The Chase Manhattan Bank, as administrative agent, and The Bank of New York, as documentation agent.

"Rockwell Senior Unsecured Credit Facility" shall mean the senior unsecured credit facility of the Borrower documented by the Rockwell Senior Unsecured Credit Agreement.

"Rockwell Senior Unsecured Credit Facility Loan Documents" shall mean (a) the Rockwell Senior Unsecured Credit Agreement and (b) the indenture relating to the Exchange Notes.

"Rockwell Senior Unsecured Credit Facility Loans" shall mean the loans drawn by the Borrower under the Rockwell Senior Unsecured Credit Facility on the Effective Date in aggregate principal amounts not in excess of \$30,000,000, the proceeds of which shall be used by the Borrower to finance, in part, the Rockwell Acquisition and to pay fees and expenses in connection therewith.

"Sale Agreement" shall mean the sale agreement dated as of August 7, 1998, between the Borrower and Rockwell relating to the Rockwell Acquisition.

"Sale and Leaseback Transaction" shall have the meaning assigned such term in Section 6.03.

"Secured Parties" shall have the meaning assigned to such term in the Security Agreement.

"Security Agreement" shall mean the Security Agreement, substantially in the form of Exhibit H, among the Borrower, the Subsidiaries party thereto and the Collateral Agent for the benefit of the Secured Parties.

"Security Documents" shall mean the Mortgages, the Security Agreement, the Pledge Agreement, the Intellectual Property Security Agreement and each of the security agreements, mortgages and other instruments and documents executed and delivered pursuant to any of the foregoing or pursuant to Section 5.11.

"Senior Unsecured Notes" shall mean \$100,000,000 aggregate principal amount of the senior unsecured notes of the Borrower due 2005 issued on or about June 9, 1995 pursuant to the indenture between the Borrower and BNY, as Trustee.

"September Confidential Information Memorandum" shall mean the Confidential Information Memorandum of the Borrower dated September 1998.

"September Fee Letter" shall mean the Fee Letter dated September 3, 1998, among the Borrower, the Administrative Agent and Chase Securities Inc.

"September 1998 Term Borrowing" shall mean a Borrowing comprised of September 1998 Term Loans.

"September 1998 Term Loan Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make September 1998 Term Loans hereunder as set forth in Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its September 1998 Term Loan Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04.

"September 1998 Term Loan Maturity Date" shall mean December 31, 2003.

"September 1998 Term Loan Repayment Date" shall have the meaning assigned to such term in Section 2.11(b).

"September 1998 Term Loans" shall mean the term loans made by the Lenders to the Borrower pursuant to Section 2.01(b). Each September 1998 Term Loan shall be either a Eurodollar Term Loan or an ABR Term Loan.

"SIH" shall mean Scandinavian Incentive Holding B.V., a Netherlands corporation.

"Spot Exchange Rate" shall mean, on any day, with respect to any Alternative Currency, the spot rate at which Dollars are offered for such Alternative Currency on such day by the Administrative Agent in London or in the interbank market where its foreign currency exchange operations in respect of such Alternative Currency are then being conducted at approximately 11:00 a.m. (local time). Notwithstanding the foregoing, if for any reason at the time of any determination of the Spot Exchange Rate as described above, no such rate is being quoted, the Administrative Agent may use any reasonable method it deems appropriate to determine such rate, and such determination shall be conclusive absent manifest error.

"Standard & Poor's" shall mean Standard & Poor's Corporation.

"Statutory Reserves" shall mean a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board and any other banking authority, domestic or foreign, to which the Administrative Agent or any Lender (including any branch, Affiliate, or other Funding Office making or holding a Loan) is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in dollars of over \$100,000 with maturities approximately equal to three months, and

(b) with respect to the Adjusted LIBO Rate, for Eurocurrency Liabilities (as defined in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute Eurocurrency Liabilities and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"subsidiary" shall mean, with respect to any Person (herein referred to as the "parent"), any corporation, partnership, company, limited liability company, association or other business entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or more than 50% of the general partnership interests are, at the time any determination is being made, owned, controlled or held, or (b) that is, at the time any determination is made, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" shall mean any subsidiary of the Borrower.

"Swingline Commitment" shall mean the commitment of the Swingline Lender to make loans pursuant to Section 2.20 as set forth on Schedule 2.01, as the same may be reduced from time to time pursuant to Section 2.09.

"Swingline Exposure" shall mean at any time the aggregate principal amount at such time of all outstanding Swingline Loans. The Swingline Exposure of any Revolving Credit Lender at any time shall equal its Pro Rata Percentage of the aggregate Swingline Exposure at such time.

"Swingline Loan" shall mean any loan made by the Swingline Lender pursuant to Section 2.20.

"Term Borrowing" shall mean a Borrowing comprised of Term Loans.

"Term Loan Commitment" shall mean, with respect to any Lender, the commitment of such Lender to make Term Loans hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its Term Loan Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04.

"Term Loan Repayment Date" shall mean a June 1998 Term Loan Repayment Date or a September 1998 Term Loan Repayment Date.

"Term Loans" shall mean the June 1998 Term Loans and the September 1998 Term Loans.

"Three-Month Secondary CD Rate" shall mean, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day shall not be a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day), or, if such rate shall not be so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day shall not be a Business Day, on the next preceding Business Day) by the Administrative Agent from three New York City negotiable certificate of deposit dealers of recognized standing selected by it.

"Total Revolving Credit Commitment" shall mean, at any time, the aggregate amount of the Revolving Credit Commitments, as in effect at such time.

"Transactions" shall mean (a) the execution, delivery and performance by each Loan Party of each of the Loan Documents and the borrowings hereunder on the Closing Date, (b) the repayment in full of all loans outstanding under the Original Credit Agreement and the payment of any fees, expenses, indemnities or other obligations of the Borrower payable thereunder in connection with the repayment in full of such loans or otherwise, in accordance with the terms of the Original Credit Agreement and (c) the assumption by the Borrower of reimbursement obligations in respect of Existing Letters of Credit.

"Type", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, the term "Rate" shall include the Adjusted LIBO Rate and the Alternate Base Rate.

"Vestar" shall mean Vestar/WABCO Investors, L.P., a Delaware limited partnership.

"Vestar Capital" shall mean Vestar Capital Partners, Inc., a Delaware corporation.

"Voting Trust" shall mean the voting trust established pursuant to the Voting Trust Agreement.

"Voting Trust Agreement" shall mean the Voting Trust/Disposition Agreement, dated as of January 9, 1990, as amended as of February 28, 1990, and March 9, 1990, and as amended on January 31, 1995, by and between the Persons named therein.

"Withdrawal Liability" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, (a) any reference in this Agreement to any Loan Document shall mean such document as amended, restated, supplemented or otherwise modified from time to time and (b) all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that (i) for purposes of determining compliance with the covenants contained in Article VI, all accounting terms herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with GAAP as in effect on the Closing Date and applied on a basis consistent with the application used in the financial statements referred to in Section 3.05(a) and (ii) for purposes of calculating the Fixed Charge Coverage Ratio, Interest Expense Ratio, Leverage Ratio and Excess Cash Flow, the non-cash accounting effects of the ESOP shall not be taken into account.

## ARTICLE II. THE CREDITS

SECTION 2.01. Commitments. On the terms and subject to the conditions and relying upon the representations and warranties herein set forth:

(a) each Lender having a June 1998 Term Loan Commitment agrees severally and not jointly to continue the June 1998 Term Loans outstanding on the Effective Date, the aggregate principal amount of which equals such Lender's June 1998 Term Loan Commitment;

(b) each Lender having a September 1998 Term Loan Commitment agrees severally and not jointly to make September 1998 Term Loans to the Borrower on the Effective Date in an aggregate principal amount not to exceed such Lender's September 1998 Term Loan Commitment; and

(c) each Lender having a Revolving Credit Commitment agrees severally and not jointly to continue the Revolving Loans outstanding on the Effective Date and to make Revolving Loans to the Borrower, at any time and from time to time on or after the Effective Date, and until the earlier of the Revolving Credit Maturity Date and the termination of the Revolving Credit Commitment of such Lender in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in (i) such Lender's Revolving Credit Exposure exceeding (ii) such Lender's Revolving Credit Commitment.

Within the limits set forth in clause (c) of the preceding sentence, the Borrower may borrow, pay or prepay and reborrow Revolving Loans on or after the Effective Date and prior to the Revolving Credit Maturity Date, subject to the terms, conditions and limitations set forth herein. Amounts paid or prepaid in respect of Term Loans may not be reborrowed.

SECTION 2.02. Loans. (a) Each Loan (other than a Swingline Loan, as to which this Section 2.02 shall not apply) shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their respective Term Loan Commitments or Revolving Credit Commitments, as applicable; provided, however, that the failure of any Lender to make any Loan shall not in itself relieve any other Lender of its obligation to lend hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender). The Loans comprising each Borrowing shall be in an aggregate principal amount that is (i) an integral multiple of \$1,000,000 and, in the case of Eurodollar Borrowings, not less than \$5,000,000 or (ii) equal to the remaining available balance of the applicable Commitments.

(b) Subject to Sections 2.08 and 2.14, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request pursuant to Section 2.03. Each Lender may at its option make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided, however, that any exercise of such option shall not (i) affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement or (ii) impose any additional obligation on the part of the Borrower pursuant to Section 2.13 or 2.19. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing that, if made, would result in more than twelve Eurodollar Borrowings outstanding hereunder at any one time. For purposes of the foregoing, Borrowings having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Borrowings.

(c) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer to such account in New York City as the Administrative Agent may designate in federal funds not later than 12:00 (noon), New York

City time, and the Administrative Agent shall by 3:00 p.m., New York City time, credit the amounts so received to the general deposit account with the Administrative Agent of the Borrower or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Lenders on such date.

(d) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's portion of such Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with paragraph (c) above and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If the Administrative Agent shall have so made funds available then, to the extent that such Lender shall not have made such portion available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Lender, a rate determined by the Administrative Agent to represent its cost of overnight or short-term funds (which determination shall be conclusive absent manifest error). If such Lender shall repay to the Administrative Agent such corresponding amount, such amount shall constitute such Lender's Loan as part of such Borrowing for purposes of this Agreement.

(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Revolving Credit Borrowing if the Interest Period requested with respect thereto would end after the Revolving Credit Maturity Date.

(f) If the Issuing Bank shall not have received from the Borrower the payment required to be made by Section 2.21(e) within three hours after the Borrower shall have received notice from the Issuing Bank that payment of a draft presented under any Letter of Credit will be made, or, if the Borrower shall have received such notice later than 2:00 p.m., New York City time, on any Business Day, not later than 10:00 a.m., New York City time, on the immediately following Business Day, as provided in Section 2.21(e), the Issuing Bank will promptly notify the Administrative Agent of the L/C Disbursement and the Administrative Agent will promptly notify each Revolving Credit Lender of such L/C Disbursement and its Pro Rata Percentage thereof. Each Revolving Credit Lender shall pay by wire transfer of immediately available funds to the Administrative Agent not later than 2:00 p.m., New York City time, on such date (or, if such Revolving Credit Lender shall have received such notice later than 12:00 (noon), New York City time, on any day, not later than 10:00 a.m., New York City time, on the immediately following Business Day), an amount equal to such Lender's Pro Rata Percentage of such L/C Disbursement (or, in the case of an

L/C Disbursement denominated in an Alternative Currency, such Lender's Pro Rata Percentage of the Assigned Dollar Value of such L/C Disbursement) (it being understood that such amount shall be deemed to constitute an ABR Revolving Loan of such Lender and such payment shall be deemed to have reduced the L/C Exposure), and the Administrative Agent will promptly pay to the Issuing Bank amounts so received by it from the Revolving Credit Lenders. The Administrative Agent will promptly pay to the Issuing Bank any amounts received by it from the Borrower pursuant to Section 2.21(e) prior to the time that any Revolving Credit Lender makes any payment pursuant to this paragraph (f); any such amounts received by the Administrative Agent thereafter will be remitted on the day of receipt by the Administrative Agent to the Revolving Credit Lenders that shall have made such payments and to the Issuing Bank, as their interests may appear. If any Revolving Credit Lender shall not have made its Pro Rata Percentage of such L/C Disbursement available to the Administrative Agent as provided above, such Lender agrees to pay interest on such amount, for each day from and including the date such amount is required to be paid in accordance with this paragraph (f) to but excluding the date such amount is paid, to the Administrative Agent at, for the first such day, the Federal Funds Effective Rate, and for each day thereafter, the Alternate Base Rate.

SECTION 2.03. Borrowing Procedure. In order to request a Borrowing (other than a Swingline Loan, as to which this Section 2.03 shall not apply, and other than a deemed Borrowing of ABR Loans pursuant to Section 2.02(f)), the Borrower shall give telephonic notice to the Administrative Agent (promptly confirmed by delivery of a duly completed Borrowing Request) (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before a proposed Borrowing, and (b) in the case of an ABR Borrowing, not later than 10:00 a.m., New York City time, on the Business Day of such proposed Borrowing; provided, however, that Borrowing Requests with respect to Borrowings to be made on the Effective Date may, at the discretion of the Administrative Agent, be delivered later than the times specified above. Each Borrowing Request shall be irrevocable, signed by or on behalf of the Borrower and shall specify the following information: (a) whether the Borrowing then being requested is to be a June 1998 Term Borrowing, September 1998 Term Borrowing or a Revolving Credit Borrowing, and whether such Borrowing is to be a Eurodollar Borrowing or an ABR Borrowing; (b) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (c) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto; provided, however, that, notwithstanding any contrary specification in any Borrowing Request, each requested Borrowing shall comply with the requirements set forth in Section 2.02. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Borrower shall not have delivered a Borrowing Request in accordance with this Section 2.03 prior to the end of the Interest Period then in effect for any Revolving Credit Borrowing and requesting that such Borrowing be refinanced, then the Borrower shall (unless the Borrower has notified the

Administrative Agent, not less than three Business Days prior to the end of such Interest Period, that such Borrowing is to be repaid at the end of such Interest Period) be deemed to have delivered a Borrowing Request requesting that such Borrowing be refinanced with a new Borrowing of equivalent amount, and such new Borrowing shall be an ABR Borrowing. The Administrative Agent will promptly advise the applicable Lenders of any notice given pursuant to this Section 2.03 (and the contents thereof) and of each Lender's portion of the requested Borrowing.

SECTION 2.04. Evidence of Debt; Repayment of Loans. (a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender (i) the then-unpaid principal amount of each Revolving Loan and Swingline Loan of such Lender on the Revolving Credit Maturity Date (or such earlier date on which the Revolving Loans and Swingline Loans shall become due and payable pursuant to Article VII) and (ii) the principal amount of the Term Loans of such Lender as provided in Section 2.11 (or the then-unpaid principal amount of such Term Loans on the date that the Term Loans shall become due and payable pursuant to Article VII). Each Loan shall bear interest from and including the date of the first Borrowing hereunder on the outstanding principal balance thereof as set forth in Section 2.06.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid such Lender from time to time under this Agreement.

(c) The Administrative Agent shall maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraphs (b) and (c) above shall, to the extent permitted by applicable law, be prima facie evidence of the existence and amounts of the obligations of the Borrower therein recorded; provided, however, that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligations of the Borrower to repay (with the applicable interest) the Loans in accordance with the terms of this Agreement.

(e) Notwithstanding any other provision of this Agreement, in the event any Lender shall request a note payable to such Lender and its registered assigns, the Borrower will issue such a note and the interests represented by such note shall at all times (including after any assignment of all or part of such interests pursuant to Section 9.04) be represented by one or more notes payable to the payee named therein or its registered assigns.

SECTION 2.05. Fees. (a) The Borrower agrees to pay to each Lender, through the Administrative Agent, on the Closing Date, on the last day of March, June, September and December in each year and on each date on which any Commitment of such Lender shall expire or be terminated as provided herein, a commitment fee (a "Commitment Fee") equal to the Applicable Percentage per annum (as set forth under the heading "Fee Percentage" in the table within the definition of the term "Applicable Percentage") in effect from time to time on the average daily unused amount of the Revolving Credit Commitment of such Lender during the preceding quarter (or other period commencing with the date of acceptance by the Borrower of the Commitment of such Lender or ending with the Revolving Credit Maturity Date or the date on which the Revolving Credit Commitment of such Lender shall expire or be terminated). All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days. The Commitment Fee due to each Lender shall commence to accrue on the date of acceptance by the Borrower of the Commitment of such Lender and shall cease to accrue on the date on which the Commitments of such Lender shall expire or be terminated as provided herein. For purposes of calculating Commitment Fees only, no portion of the Revolving Credit Commitments shall be deemed utilized under Section 2.16 as a result of outstanding Swingline Loans. For the purpose of calculating Commitment Fees in respect of Revolving Credit Commitments, any portion of the Revolving Credit Commitments unavailable due to outstanding Letters of Credit shall be deemed to be used amounts.

(b) The Borrower agrees to pay to the Administrative Agent, for its own account, the administration fees set forth in the September Fee Letter as payable to the Administrative Agent, at the time and in the amounts specified therein (the "Administration Agent Fees").

(c) The Borrower agrees to pay to the Administrative Agent, for payment to the other Lenders (to the extent applicable), on the Closing Date the fees specified in the Fee Letter, and the Agent shall pay to each Lender on the Closing Date that portion of such fees as shall be owing to such Lender.

(d) The Borrower agrees to pay (i) to each Revolving Credit Lender, through the Administrative Agent, on the last day of March, June, September and December of each year and on the date on which the Revolving Credit Commitment of such Lender shall be terminated as provided herein, a fee (an "L/C Participation Fee") calculated on such Lender's Pro Rata Percentage of the average daily aggregate L/C Exposure (excluding the portion thereof attributable to unreimbursed L/C Disbursements) during the preceding quarter (or shorter period commencing with the Closing Date or ending with the Revolving Credit Maturity Date or the date on which all Letters of Credit have been canceled or have expired and the Revolving Credit Commitment of such Lender shall have been terminated)

at the Applicable Percentage for purposes of determining the interest rate on Revolving Credit Borrowings comprised of Eurodollar Loans pursuant to Section 2.06, and (ii) to the Issuing Bank on the last day of March, June, September and December of each year, a fronting fee of 0.125% per annum on the average daily aggregate L/C Exposure (excluding the portion thereof attributable to unreimbursed L/C Disbursements) during the preceding quarter (or shorter period commencing with the Closing Date or ending with the Revolving Credit Maturity Date or the date on which all Letters of Credit have been canceled or have expired and the Revolving Credit Commitments of all Lenders shall have been terminated) and, with respect to each Letter of Credit, any other fees agreed upon by the Borrower and the Issuing Bank plus, in connection with the issuance, amendment or transfer of any Letter of Credit or any L/C Disbursement, the Issuing Bank's customary documentary and processing charges (collectively, the "Issuing Bank Fees"). All L/C Participation Fees and Issuing Bank Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

(e) All Fees shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution, if and as appropriate, among the Lenders, except that the Issuing Bank Fees shall be paid directly to the Issuing Bank. Once paid, none of the Fees shall be refundable under any circumstances (other than corrections of error in payment).

SECTION 2.06. Interest on Loans. (a) Subject to the provisions of Section 2.07, the Loans comprising each ABR Borrowing and the Swingline Loans shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when the Alternate Base Rate is determined by reference to the Prime Rate and over a year of 360 days at all other times) at a rate per annum equal to the Alternate Base Rate plus the Applicable Percentage in effect from time to time.

(b) Subject to the provisions of Section 2.07, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Percentage in effect from time to time.

(c) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Adjusted LIBO Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.07. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, or under any other Loan Document, the Borrower

shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount to but excluding the date of actual payment (after as well as before judgment) (a) in the case of overdue principal, at the rate otherwise applicable to such Loan pursuant to Section 2.06 plus 2.00% per annum and (b) in all other cases, at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when determined by reference to the Prime Rate and over a year of 360 days at all other times) equal to the sum of the Alternate Base Rate plus 2.00%.

SECTION 2.08. Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Administrative Agent shall have determined that Dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such Dollar deposits are being offered will not adequately and fairly reflect the cost to Lenders that would hold more than 25% of the Loans comprising such Borrowing of making or maintaining such Loans, or that reasonable means do not exist for ascertaining the Adjusted LIBO Rate, the Administrative Agent shall, as soon as practicable thereafter, give written notice of such determination to the Borrower and the Lenders. In the event of any such determination, until the Administrative Agent shall have advised the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 or 2.10 shall be deemed to be a request for an ABR Borrowing. Each determination by the Administrative Agent hereunder shall be conclusive absent manifest error.

SECTION 2.09. Termination and Reduction of Commitments. (a) The June 1998 Term Loan Commitments terminated upon the making of the June 1998 Term Loans. The September 1998 Term Loan Commitments shall automatically terminate at 5:00 p.m., New York City time, on the Effective Date. The Revolving Credit Commitments, the L/C Commitment and the Swingline Commitment shall automatically terminate on the Revolving Credit Maturity Date.

(b) Upon at least three Business Days' prior irrevocable written notice to the Administrative Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the Commitments; provided, however, that (i) each partial reduction of the Commitments shall be in an integral multiple of \$1,000,000 and in a minimum principal amount of \$5,000,000 and (ii) the Total Revolving Credit Commitment shall not be reduced to an amount that is less than the sum of the Aggregate Revolving Credit Exposure at the time.

(c) Each reduction in the Commitments hereunder shall be made ratably among the applicable Lenders in accordance with their respective applicable Commitments. The Borrower shall pay to the Administrative Agent for the account of the applicable Lenders, on the date of each termination or reduction, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued to but excluding the date of such termination or reduction.

## SECTION 2.10. Conversion and Continuation of Borrowings. (a)

The Borrower shall have the right at any time (subject to Sections 2.08 and 2.20(d)) upon prior irrevocable notice to the Administrative Agent (i) not later than 12:00 (noon), New York City time, one Business Day prior to conversion, to convert any Eurodollar Borrowing into an ABR Borrowing, (ii) not later than 11:00 a.m., New York City time, three Business Days prior to conversion or continuation, to convert any ABR Borrowing into a Eurodollar Borrowing or to continue any Eurodollar Borrowing as a Eurodollar Borrowing for an additional Interest Period, and (iii) not later than 11:00 a.m., New York City time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Borrowing to another permissible Interest Period, subject in each case to the following:

(A) each conversion or continuation shall be made pro rata among the Lenders in accordance with the respective principal amounts of the Loans comprising the converted or continued Borrowing;

(B) if less than all the outstanding principal amount of any Borrowing shall be converted or continued, then each resulting Borrowing shall satisfy the limitations specified in Sections 2.02(a) and 2.02(b) regarding the principal amount and maximum number of Borrowings of the relevant Type;

(C) each conversion shall be effected by each Lender by recording for the account of such Lender the new Loan of such Lender resulting from such conversion and reducing the Loan (or portion thereof) of such Lender being converted by an equivalent principal amount; accrued interest on any Eurodollar Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion;

(D) if any Eurodollar Borrowing is converted at a time other than the end of the Interest Period applicable thereto, the Borrower shall pay, upon demand, any amounts due to the Lenders pursuant to Section 2.15;

(E) any portion of a Borrowing maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Borrowing;

(F) any portion of a Eurodollar Borrowing that cannot be converted into or continued as a Eurodollar Borrowing by reason of the immediately preceding clause shall be automatically converted at the end of the Interest Period in effect for such Borrowing into an ABR Borrowing; and

(G) no Interest Period may be selected for any Eurodollar Term Borrowing comprised of June 1998 Term Loans or September 1998 Term Loans that would end later than any June 1998 Term Loan Repayment Date or September 1998 Term Loan Repayment Date, as the case may be, occurring on or after the first day of such Interest Period if, after giving effect to such selection, the aggregate outstanding amount of (I) the Eurodollar Term Borrowings comprised of June 1998 Term Loans or September 1998 Term Loans, as the case may be, with Interest Periods ending on or prior to such Term Loan Repayment Date and (II) ABR Term Borrowings comprised of June 1998 Term Loans or September 1998 Term Loans, as the case may be, would not be at least equal to the principal amount of Term Borrowings to be paid on such Term Loan Repayment Date.

(b) Each notice pursuant to this Section 2.10 shall be irrevocable and shall refer to this Agreement and specify (i) the identity and amount of the Borrowing that the Borrower requests be converted or continued, (ii) whether such Borrowing is to be converted to or continued as a Eurodollar Borrowing or an ABR Borrowing, (iii) if such notice requests a conversion, the date of such conversion (which shall be a Business Day) and (iv) if such Borrowing is to be converted to or continued as a Eurodollar Borrowing, the Interest Period with respect thereto. If no Interest Period is specified in any such notice with respect to any conversion to or continuation as a Eurodollar Borrowing, the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall promptly advise the other Lenders of any notice given pursuant to this Section 2.10 and of each Lender's portion of any converted or continued Borrowing. If the Borrower shall not have given notice in accordance with this Section 2.10 to continue any Borrowing into a subsequent Interest Period (and shall not otherwise have given notice in accordance with this Section 2.10 to convert such Borrowing), such Borrowing shall, at the end of the Interest Period applicable thereto (unless repaid pursuant to the terms hereof), automatically be continued into a new Interest Period as an ABR Borrowing.

SECTION 2.11. Repayment of Term Borrowings. (a) The June 1998 Term Borrowings shall be payable as to principal in semi-annual installments payable on the dates (each a "June 1998 Term Loan Repayment Date") and in the amounts set forth below, subject to adjustment pursuant to paragraph (c) below:

Repayment Date -----	Amount -----
December 31, 1998	\$ 7,500,000
June 30, 1999	\$ 7,500,000
December 31, 1999	\$12,500,000
June 30, 2000	\$12,500,000
December 31, 2000	\$15,000,000
June 30, 2001	\$15,000,000
December 31, 2001	\$20,000,000
June 30, 2002	\$20,000,000
December 31, 2002	\$20,000,000
June 30, 2003	\$20,000,000
June 1998 Term Loan Maturity Date	\$20,000,000

(b) The September 1998 Term Borrowings shall be payable as to principal in semi-annual installments payable on the dates (each a "September 1998 Term Loan Repayment Date") and in the amounts set forth below, subject to adjustment pursuant to paragraph (c) below:

Repayment Date -----	Amount -----
June 30, 2000	\$ 2,500,000
December 31, 2000	\$ 2,500,000
June 30, 2001	\$ 2,500,000
December 31, 2001	\$ 2,500,000
June 30, 2002	\$ 5,000,000
December 31, 2002	\$ 5,000,000
June 30, 2003	\$10,000,000
September 1998 Term Loan Maturity Date	\$10,000,000

(c) Each prepayment of principal of the Term Borrowings pursuant to Section 2.12 shall be applied to the June 1998 Term Borrowings and the September 1998 Term Borrowings on a pro rata basis to reduce scheduled repayments of principal due under Section 2.11(a) or (b), as applicable, as follows: (i) 50% of any such prepayment applied to the June 1998 Term Borrowings or the September 1998 Term Borrowings shall be applied to reduce the remaining scheduled repayments of principal due under Section 2.11(a) or (b), as applicable, in the order of maturity and (ii) 50% of any such prepayment applied to the June 1998 Term Borrowings or the September 1998 Term Borrowings shall be applied to reduce the remaining scheduled repayments of principal due under Section 2.11(a) or (b), as applicable, on a pro rata basis.

(d) To the extent not previously paid, all June 1998 Term Borrowings and all September 1998 Term Borrowings shall be due and payable on the June 1998 Term Loan Maturity Date (as set forth in Section 2.11(a)) and the September 1998 Term Loan Maturity Date (as set forth in Section 2.11(b)), respectively.

(e) Each repayment of Term Borrowings pursuant to this Section 2.11 shall be subject to Section 2.15 but shall otherwise be without premium or penalty.

Each repayment of Term Borrowings pursuant to this Section 2.11 shall be accompanied by accrued interest on the principal amount paid to but excluding the date of payment.

SECTION 2.12. Prepayment. (a) The Borrower shall have the right at any time and from time to time to prepay (i) any Eurodollar Borrowing, in whole or in part, upon at least three Business Days' telephonic notice (promptly confirmed in writing) to the Administrative Agent before 11:00 a.m., New York City time; provided, however, that each partial prepayment shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000; and (ii) any ABR Borrowing, in whole or in part, upon at least one Business Day's telephonic notice (promptly confirmed in writing) to the Administrative Agent before 11:00 a.m., New York City time; provided, however, that each such partial prepayment shall be in an amount not less than \$1,000,000 or an integral multiple thereof. Any voluntary prepayment of Term Borrowings shall be applied to the June 1998 Term Borrowings and the September 1998 Term Borrowings on a pro rata basis in accordance with Section 2.11(c). This paragraph (a) shall not apply to prepayments of Swingline Loans.

(b) In the event of any termination of the Revolving Credit Commitments, the Borrower shall repay or prepay all its outstanding Revolving Credit Borrowings and all outstanding Swingline Loans on the date of such termination. In the event of any partial reduction of the Revolving Credit Commitments, then (i) at or prior to the effective date of such reduction, the Administrative Agent shall notify the Borrower and the Revolving Credit Lenders of the Aggregate Revolving Credit Exposure and (ii) if the Aggregate Revolving Credit Exposure would exceed the Total Revolving Credit Commitment after giving effect to such reduction, then the Borrower shall, on the date of such reduction, repay or prepay Revolving Credit Borrowings or Swingline Loans (or a combination thereof) in an amount sufficient to eliminate such excess.

(c) So long as any Term Borrowings remain outstanding, in the event and on each occasion that a Prepayment Event (other than under clause (c) of the definition thereof and other than to the extent that the proceeds of Indebtedness incurred or created under Section 6.01(k) are applied in accordance with Section 6.01(k)) occurs, the Borrower shall apply an amount equal to 100% of the Net Cash Proceeds therefrom to prepay Term Loans outstanding under this Agreement by, substantially simultaneously with (and in any event not later than the Business Day next following) the occurrence of such Prepayment Event, paying to the Administrative Agent an amount equal to 100% of the Net Cash Proceeds from such Prepayment Event for application to the prepayment of outstanding Term Borrowings in accordance with the following paragraphs of this Section 2.12. If a Prepayment Event arises under clause (c) of the definition thereof, then the Borrower shall apply an amount equal to 50% of the Net Cash Proceeds therefrom to prepay Term Loans outstanding under this Agreement by paying to the Administrative Agent an amount equal to 50% of the Net Cash Proceeds from such Prepayment Event in the manner and for the purpose set forth in the preceding sentence.

(d) So long as any Term Borrowings remain outstanding, not later than the earlier of (i) 110 days after the end of each fiscal year of the Borrower, commencing with the fiscal year ending December 31, 1999, and (ii) the date on which the financial statements with respect to such fiscal year are delivered pursuant to Section 5.04 (such earlier date, the "Determination Date"), the Borrower shall prepay Term Loans outstanding under this Agreement in an aggregate principal amount equal to 50% of Excess Cash Flow for such fiscal year if, as of the applicable Determination Date, the Leverage Ratio exceeds 3.25 to 1.00, by paying to the Administrative Agent such amount for application to the prepayment of outstanding Term Borrowings in accordance with the following paragraphs of this Section 2.12.

(e) Mandatory prepayments pursuant to paragraphs (c) and (d) above shall be applied to the prepayment in full of all outstanding June 1998 Term Borrowings and September 1998 Term Borrowings on a pro rata basis.

(f) The Borrower will deliver to the Administrative Agent (i) at the time of each prepayment required under paragraph (c) or (d) above, a certificate signed by a Financial Officer of the Borrower setting forth in reasonable detail the calculation of the amount of such prepayment and (ii) no later than the later of (A) the date on which a Responsible Officer of the Borrower becomes aware that such prepayment will be made and (B) the date that is five Business Days prior to the date of such prepayment, a notice of such prepayment. In the case of a prepayment pursuant to paragraph (c) above, such certificate shall also describe in reasonable detail the facts and circumstances giving rise to the applicable Prepayment Event and a reasonably detailed calculation of the Net Cash Proceeds therefrom.

(g) Net Cash Proceeds and any other amounts to be applied pursuant to paragraph (c) or (d) above to the prepayment of June 1998 Term Borrowings or September 1998 Term Borrowings shall be applied first to reduce outstanding ABR June 1998 Term Borrowings or September 1998 Term Borrowings, as applicable, and any amounts remaining after such application shall, at the option of the Borrower, be applied to prepay Eurodollar Term Borrowings immediately or shall be deposited in the Prepayment Account. The Administrative Agent will apply any cash deposited in the Prepayment Account (i) allocable to Term Borrowings to prepay Eurodollar Term Borrowings and (ii) allocable to Revolving Credit Borrowings to prepay Eurodollar Revolving Credit Borrowings, in each case on the last day of their respective Interest Periods (or, at the direction of the Borrower, on any earlier date) until all outstanding Term Borrowings or Revolving Credit Borrowings, as the case may be, have been prepaid or until all the allocable cash held in the Prepayment Account with respect to such Borrowings has been exhausted. The term "Prepayment Account" shall mean an account established by the Borrower with the Administrative Agent and over which the Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal for application in accordance with this paragraph (g). The Administrative Agent will, at the written or

telephonic request (which shall promptly be confirmed in writing) of the Borrower, use its reasonable efforts to invest amounts on deposit in the Prepayment Account in the Permitted Investments specified in such request; provided, however, that (i) the Administrative Agent shall not be required to make any investment that, in its sole judgment, would require or cause the Administrative Agent to be in, or would result in any, violation of any law, statute, rule or regulation, (ii) the Administrative Agent shall have no obligation to invest amounts on deposit in the Prepayment Account if an Event of Default shall have occurred and be continuing and (iii) no Permitted Investment shall mature after the last day of the applicable Interest Periods of the Eurodollar Term Borrowings or Eurodollar Revolving Credit Borrowings to be prepaid, as the case may be. The Borrower shall indemnify the Administrative Agent for any losses relating to the investments so that the amount available to prepay Eurodollar Borrowings on the last day of the applicable Interest Period is not less than the amount that would have been available had no investments been made pursuant thereto. Until no Term Borrowings or Revolving Credit Borrowings, as the case may be, are outstanding, interest or profits, if any, on such investments shall be deposited in the Prepayment Account and reinvested as specified above. Upon prepayment or payment in full of all Term Borrowings or Revolving Credit Borrowings, as the case may be, any amount remaining on deposit in the Prepayment Account with respect to such Borrowings shall be paid to the Borrower. If the maturity of the Loans has been accelerated pursuant to Article VII, the Administrative Agent may, in its sole discretion, apply all amounts on deposit in the Prepayment Account to satisfy any of the Obligations. The Borrower hereby grants to the Administrative Agent, for its benefit and the benefit of the Issuing Bank, the other Agents and the Lenders, a security interest in the Prepayment Account.

(h) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall state the Type of each Borrowing to be repaid, shall state whether Term Borrowings, Revolving Credit Borrowings or Swingline Loans are to be repaid and respective principal amounts so to be repaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.12 shall be subject to Section 2.15 but otherwise without premium or penalty. All prepayments under this Section 2.12 (other than pursuant to paragraph (c) or (d) above) shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment. All prepayments under paragraph (d) above shall be applied first to the payment of accrued interest and then to the payment of principal.

SECTION 2.13. Reserve Requirements; Change in Circumstances.

(a) Notwithstanding any other provision of this Agreement, if after the Closing Date any change in applicable law or regulation or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (whether or not having the force of law) shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by such Lender or the Issuing Bank (except any such reserve

requirement that is reflected in the Adjusted LIBO Rate or in the Alternate Base Rate) or shall impose on such Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein, and the result of any of the foregoing shall be to increase the cost to such Lender or the Issuing Bank of making or maintaining any Eurodollar Loan or increase the cost to any Lender of issuing or maintaining any Letter of Credit or purchasing or maintaining a participation therein, or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise) by an amount deemed by such Lender or the Issuing Bank to be material, then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, following receipt of a certificate of such Lender to such effect in accordance with paragraph (c) below such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank shall have determined that the adoption after the Closing Date of any law, rule, regulation, agreement or guideline regarding capital adequacy, or any change after the Closing Date in any such law, rule, regulation, agreement or guideline (whether such law, rule, regulation, agreement or guideline has been adopted) or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by any Lender (or any lending office of such Lender) or the Issuing Bank or any Lender's or the Issuing Bank's holding company with any request or directive regarding capital adequacy issued under any law, rule, regulation or guideline (whether or not having the force of law) of any Governmental Authority has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender or participations in Letters of Credit purchased by such Lender pursuant hereto or the Letters of Credit issued by the Issuing Bank pursuant hereto to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy) by an amount deemed by such Lender or the Issuing Bank to be material, then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, following receipt of a certificate of such Lender to such effect in accordance with paragraph (c) below, such additional amount or amounts as shall compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of any Lender or the Issuing Bank setting forth such amount or amounts as shall be necessary to compensate such Lender or the Issuing Bank or its holding company, as applicable, as specified in paragraph (a) or (b) above, and setting forth in reasonable detail an explanation of the basis of requesting such compensation in accordance with paragraph (a) or (b) above, shall be delivered to the Borrower and shall be

conclusive absent manifest error. The Borrower will pay such Lender or the Issuing Bank the amount shown as due on any such certificate delivered by such Lender or the Issuing Bank within 10 days after the Borrower's receipt of the same unless the Borrower has notified such Lender or the Issuing Bank, as the case may be, that it intends to exercise its rights under the next succeeding sentence. The Borrower, at its expense, at any time within 180 days after the delivery of such certificate, so long as no Event of Default shall have occurred and be continuing, may require such Lender or the Issuing Bank, as the case may be, to assign in accordance with the provisions of Section 9.04, at par plus accrued interest, without recourse or warranty and pursuant to an Assignment and Acceptance, its rights and obligations hereunder to a financial institution specified by the Borrower that is willing to accept an assignment of such rights and obligations on the terms hereof and that is reasonably acceptable to the Administrative Agent; provided, however, that (i) such assignment shall not conflict with or violate any law or regulation applicable to or binding on such Lender or the Issuing Bank, as the case may be, (ii) the Borrower shall have paid to the assigning Lender all amounts (other than interest) accrued and owing hereunder to it (including amounts accrued and owing pursuant to this Section 2.13) and (iii) the assignee Lender shall have executed and delivered an Assignment and Acceptance in accordance with Section 9.04. Notwithstanding anything in this Section 2.13(c) to the contrary, the Borrower shall not be entitled to require an assignment under this Section 2.13(c) with respect to any Lender or the Issuing Bank if, prior to any such requirement, such Lender or the Issuing Bank, as the case may be, shall have taken any action under Section 2.13(e) so as to eliminate the continued incurrence of the costs in respect of which payment was demanded.

(d) Failure on the part of any Lender or the Issuing Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any period shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation with respect to such period or any other period, except that none of any Lender or the Issuing Bank shall be entitled to compensation under this Section 2.13 for any costs incurred or reduction suffered with respect to any date unless such Lender or the Issuing Bank, as applicable, shall have notified the Borrower that it will demand compensation for such costs or reductions under paragraph (c) above, not more than six months after the later of (i) such date and (ii) the earlier of the date on which such Lender or the Issuing Bank, as applicable, shall have become aware or should have become aware of such costs or reduction. The protection of this Section 2.13 shall be available to each Lender and the Issuing Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition that shall have occurred or been imposed.

(e) Each Lender will, at the request of the Borrower, either designate a different lending office or transfer its Loans to an Affiliate of such Lender if such designation or transfer, as the case may be, (i) would avoid the need for, or minimize the amount of, any compensation to which such Lender is entitled pursuant to this Section 2.13 and (ii) would not, in the sole judgment of such Lender, be otherwise disadvantageous to such Lender in any material respect.

SECTION 2.14. Change in Legality. (a) Notwithstanding any other provision of this Agreement, if, after the Closing Date, any change in any law or regulation or in the interpretation thereof by any Governmental Authority charged with the administration or interpretation thereof shall make it unlawful for any Lender to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Administrative Agent such Lender may:

(i) declare that Eurodollar Loans will not thereafter (for the duration of such unlawfulness) be made by such Lender hereunder (or be continued for additional Interest Periods and ABR Loans will not thereafter (for such duration) be converted into Eurodollar Loans), whereupon any request for a Eurodollar Borrowing (or to convert an ABR Borrowing to a Eurodollar Borrowing or to continue a Eurodollar Borrowing for an additional Interest Period) shall, as to such Lender only, be deemed a request for an ABR Loan (or request to continue an ABR Loan as such for an additional Interest Period or to convert a Eurodollar Loan into an ABR Loan, as the case may be), unless such declaration shall be subsequently withdrawn; and

(ii) require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below.

In the event any Lender shall exercise its rights under clause (i) or (ii) above, all payments and prepayments of principal that would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Lender or the converted Eurodollar Loans of such Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.14, a notice to the Borrower by any Lender shall be effective as to each Eurodollar Loan, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan; in all other cases such notice shall be effective on the date of receipt by the Borrower.

(c) The Borrower, at its expense, at any time within 180 days after the delivery of such notice, so long as no Event of Default shall have occurred and be continuing, may require such Lender to assign in accordance with the provisions of Section 9.04, at par plus accrued interest, without recourse or warranty and pursuant to an Assignment and Acceptance, its rights and obligations hereunder to a financial institution specified by the Borrower that is willing to accept an assignment of such rights and

obligations on the terms hereof and that is reasonably acceptable to the Administrative Agent; provided, however, that (i) such assignment shall not conflict with or violate any law or regulation applicable to or binding on such Lender, (ii) the Borrower shall have paid to the assigning Lender all amounts (other than interest) accrued and owing hereunder to it and (iii) the assignee Lender shall have executed and delivered an Assignment and Acceptance in accordance with Section 9.04. Notwithstanding anything in this Section 2.14(c) to the contrary, the Borrower shall not be entitled to require an assignment under this Section 2.14(c) with respect to any Lender if, prior to any such requirement, such Lender shall have taken any action under Section 2.14(d) so as to terminate such unlawfulness.

(d) Each Lender will, at the request of the Borrower, either designate a different lending office or transfer its Loans to an Affiliate of such Lender if such designation or transfer, as the case may be, (i) would permit such Lender or Affiliate to make and maintain Eurodollar Loans and (ii) would not, in the sole judgment of such Lender, be otherwise disadvantageous to such Lender in any material respect.

SECTION 2.15. Indemnity. The Borrower will indemnify each Lender against any loss or expense that such Lender may sustain or incur as a consequence of (a) any failure by the Borrower to fulfill on the date of any proposed Borrowing the applicable conditions set forth in Article IV or, with respect to Borrowings to be made upon effectiveness of the Amendment Agreement, in the Amendment Agreement, (b) any failure by the Borrower to borrow or to refinance, convert or continue any Eurodollar Loan hereunder after irrevocable notice of such borrowing, refinancing, conversion or continuation has been given pursuant to Section 2.03 or 2.10, (c) any payment, prepayment or conversion of a Eurodollar Loan required by any other provision of this Agreement or otherwise made or deemed made on a date other than the last day of the Interest Period applicable thereto, including, in each such case, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or redeploying deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan. Such loss or reasonable expense shall be equal to the sum of (a) such Lender's actual costs and expenses incurred (other than any lost profits) in connection with, or by reason of, any of the foregoing events and (b) an amount equal to the excess, if any, as reasonably determined by such Lender of (i) its cost of obtaining the funds for the Loan being paid, prepaid, converted or not borrowed, converted or continued (assumed to be the Adjusted LIBO Rate applicable thereto) for the period from and including the date of such payment, prepayment, conversion or failure to borrow, convert or continue to but excluding the last day of the Interest Period for such Loan (or in the case of a failure to borrow, convert or continue, the Interest Period for such Loan that would have commenced on the date of such failure) over (ii) the amount of interest (as reasonably determined by such Lender) that would be realized by such Lender in redeploying the funds so paid, prepaid, converted or not borrowed, converted or continued for such period or Interest Period, as the case may be. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section 2.15 shall be delivered to the Borrower and shall be conclusive absent manifest error.

Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.15 shall survive the payment in full of the principal of and interest hereunder or any Loan Document.

SECTION 2.16. Pro Rata Treatment. Except as required under Section 2.14, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each payment of the L/C Participation Fees, each reduction of the Commitments and each refinancing of any Borrowing with, conversion of any Borrowing to or continuation of any Borrowing as a Borrowing of any Type shall be allocated pro rata among the Lenders in accordance with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their applicable outstanding Loans). For purposes of determining the available Revolving Credit Commitments of the Lenders at any time, each outstanding Swingline Loan shall be deemed to have utilized the Revolving Credit Commitments of the Lenders pro rata in accordance with such respective Revolving Credit Commitments. Each Lender agrees that in computing such Lender's portion of any Borrowing to be made hereunder, the Administrative Agent may, in its discretion, round each Lender's percentage of such Borrowing, computed in accordance with Section 2.01, to the next higher or lower whole Dollar amount.

SECTION 2.17. Sharing of Setoffs. Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Loan or Loans or L/C Disbursement as a result of which the unpaid principal portion of its Loans and participations in L/C Disbursements shall be proportionately less than the unpaid principal portion of the Loans and participations in L/C Disbursements of any other Lender, it shall be deemed simultaneously to have purchased from such other Lender at face value, and will promptly pay to such other Lender the purchase price for, a participation in the Loans and L/C Exposure of such other Lender, so that the aggregate unpaid principal amount of the Loans and L/C Exposure and participations in Loans and L/C Exposure held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Loans and L/C Exposure then outstanding as the principal amount of such Lender's Loans and L/C Exposure prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Loans and L/C Exposure outstanding prior to such exercise of banker's lien, setoff or counterclaim or other event; provided, however, that, if any such purchase or purchases or adjustments shall be made pursuant to this Section and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in a Loan or L/C

Disbursement deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Lender by reason thereof as fully as if such Lender had made a Loan directly to the Borrower in the amount of such participation.

SECTION 2.18. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any L/C Disbursement or any Fees or other amounts) hereunder and under any other Loan Document not later than 12:00 (noon), New York City time, on the date when due in immediately available funds without setoff, counterclaim, withholding or deduction of any kind. Each such payment (other than (i) Issuing Bank Fees, which shall be paid directly to the Issuing Bank, and (ii) principal of and interest on Swingline Loans, which shall be paid directly to the Swingline Lender except as otherwise provided in Section 2.20(e)) shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York. Each such payment shall be made in Dollars.

(b) Whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

SECTION 2.19. Taxes. (a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 2.18, free and clear of and without deduction for any and all current or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding (i) taxes imposed on the net income of any Agent, the Issuing Bank or any Lender (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and (ii) franchise taxes imposed on the net income of any Agent, the Issuing Bank or any Lender (or Transferee) by (A) the United States or (B) any jurisdiction under the laws of which the Agents, the Issuing Bank or any such Lender (or Transferee) is organized or has its principal office or lending office (or political subdivision or taxing authority thereof or therein) (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Non-Excluded Taxes"). If any Non-Excluded Taxes are required to be deducted from or in respect of any sum payable hereunder to any Lender (or any Transferee), any Agent or the Issuing Bank, (i) the sum payable shall be increased by the amount (an "additional amount") necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.19) such Lender (or Transferee), such Agent or the Issuing Bank (as the case may be) shall receive an amount equal to the sum it would have been received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower agrees to pay any current or future stamp, intangible or documentary taxes or any other excise or property taxes, charges or similar levies (including mortgage recording taxes and similar fees), together with interest, penalties and fees, that arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, any Assignment and Acceptance entered into at the request of the Borrower or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify each Lender (or Transferee), each Agent and the Issuing Bank for the full amount of Non-Excluded Taxes and Other Taxes paid by such Lender (or Transferee) or Agent or the Issuing Bank, as the case may be, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Non-Excluded Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Lender (or Transferee) any Agent or the Issuing Bank, as the case may be, makes written demand therefor. If a Lender (or Transferee) or Agent or the Issuing Bank shall become aware that it is entitled to receive a refund in respect of Non-Excluded Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.19, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Lender (or Transferee), any Agent or the Issuing Bank receives a refund in respect of any Non-Excluded Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.19, it shall promptly notify the Borrower of such refund and shall, within 15 days of receipt, repay such refund to the Borrower, net of all out-of-pocket expenses of such Lender, such Agent or the Issuing Bank and without any interest (other than the interest, if any, included in such refund); provided, however, that the Borrower, upon the request of such Lender (or Transferee), any Agent or the Issuing Bank, agrees to return such refund (plus penalties, interest or other charges) to such Lender (or Transferee), any Agent or the Issuing Bank in the event such Lender (or Transferee) or Agent or the Issuing Bank is required to repay such refund.

(d) Within 30 days after the date of any payment of Non-Excluded Taxes or Other Taxes withheld by the Borrower in respect of any payment to any Lender (or Transferee), any Agent or the Issuing Bank, the Borrower will furnish to the Administrative Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt evidencing payment thereof or other evidence reasonably satisfactory to such Lender (or Transferee), such Agent or the Issuing Bank, as the case may be.

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.19 shall survive the payment in full of the principal of and interest hereunder or any Loan Document.

(f) Any Agent, any Issuing Bank and any Lender (or Transferee) that itself is not incorporated under the laws of the United States of America or a state thereof or that is lending from a lending office not located within the United States of America or a state thereof (a "Non-U.S. Lender") shall deliver to the Borrower and the Agent two copies of either United States Internal Revenue Service Form 1001 or Form 4224, or, in the case of a Non-U.S. Lender claiming exemption from U.S. Federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest", a Form W-8, or any subsequent versions thereof or successors thereto (and, if such Non-U.S. Lender delivers a Form W-8, a certificate representing that such Non-U.S. Lender (i) is not a bank for purposes of Section 881(c) of the Code, is not subject to regulatory or other legal requirements as a bank in any jurisdiction, has not been treated as a bank for purposes of any tax, securities law or other filing or submission made to any governmental authority, any application made to a rating agency or qualification for any exemption from tax, securities law or other legal requirements, (ii) is not a 10-percent shareholder (within the meaning of Section 871(h)(3)(B) of the Code) of the Borrower, (iii) is not a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Code) and (iv) is not acting as a conduit entity (within the meaning of proposed U.S. Treasury Regulation Section 1.881-3 and any successor thereto and any other regulations promulgated under the authority of Section 7701(1) of the Code)), properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or reduced rate of, United States Federal withholding tax on payments by the Borrower under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of a Transferee that is a participation holder, on or before the date such participation holder becomes a Transferee hereunder) and on or before the date, if any, such Non-U.S. Lender changes its applicable lending office by designating a different lending office (a "New Lending Office"). In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Notwithstanding any other provision of this Section 2.19(f), a Non-U.S. Lender shall not be required to deliver any form pursuant to this Section 2.19(f) that such Non-U.S. Lender is not legally able to deliver.

(g) The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amounts to any Non-U.S. Lender, in respect of United States Federal withholding tax pursuant to paragraph (a) or (c) above to the extent that (i) the obligation to withhold amounts with respect to United States Federal withholding tax existed on the date such Non-U.S. Lender became a party to this Agreement (or, in the case of a Transferee that is a participation holder, on the date such participation holder became a Transferee hereunder) or, with respect to payments to a New Lending Office, the date such Non-U.S. Lender designated such New Lending Office with respect to a Loan; provided, however, that this clause (i) shall not apply to any Transferee or New Lending Office that becomes a Transferee or new Lending Office as a result of an assignment, participation, transfer or designation made at the request of the Borrower; and provided further, however,

that this clause (i) shall not apply to the extent that the indemnity payment or additional amounts any Transferee, or Lender (or Transferee) through a New Lending Office, would be entitled to receive (without regard to this clause (i)) do not exceed the indemnity payment or additional amounts that the person making the assignment, participation or transfer to such Transferee, or Lender (or Transferee) making the designation of such New Lending Office, would have been entitled to receive in the absence of such assignment, participation, transfer or designation or (ii) the obligation to pay such additional amounts would not have arisen but for a failure by such Non-U.S. Lender to comply with the provisions of paragraph (f) above.

(h) Any Agent, Issuing Bank or Lender (or Transferee) claiming any additional amounts payable pursuant to this Section 2.19 will use reasonable efforts (consistent with legal and regulatory restrictions) (including reasonable efforts to change the jurisdiction of its applicable lending office or to transfer its Loans to an Affiliate of such Lender) to avoid the need for or reduce the amount of any such additional amounts that may thereafter accrue; provided, however, that such efforts would not, in the sole determination of such Lender (or Transferee), Agent or Issuing Bank as the case may be, be otherwise disadvantageous to such Lender (or Transferee), Agent or Issuing Bank in any material respect. In addition, the Borrower, at its expense, at any time within 180 days after receipt of notice that additional amounts are payable under this Section 2.19, so long as no Event of Default shall have occurred and be continuing, may require the Issuing Bank or such Lender, as the case may be, to assign in accordance with the provisions of Section 9.04, at par plus accrued interest, without recourse or warranty and pursuant to an Assignment and Acceptance, its rights and obligations hereunder to a financial institution specified by the Borrower that is willing to accept an assignment of such rights and obligations on the terms hereof and is reasonably acceptable to the Agent; provided, however, that (i) such assignment shall not conflict with or violate any law or regulation applicable to or binding on such Agent, Issuing Bank or Lender, as applicable, (ii) the Borrower shall have paid to the assigning Lender all amounts (other than interest) accrued and owing hereunder to it (including amounts accrued and owing pursuant to this paragraph (h)) and (iii) the assignee Lender shall have executed and delivered an Assignment and Acceptance in accordance with Section 9.04. Notwithstanding anything in this paragraph (h) to the contrary, the Borrower shall not be entitled to require an assignment under this paragraph (h) with respect to the Issuing Bank or any Lender if, prior to any such requirement, the Issuing Bank or such Lender, as applicable, shall have taken any action under the first sentence of this paragraph (h) so as to eliminate the continued need for payment of additional amounts under this Section 2.19.

(i) Nothing contained in this Section 2.19 shall require any Lender (or Transferee), any Agent or the Issuing Bank to make available any of its tax returns (or any other information relating to its taxes that it deems to be confidential).

SECTION 2.20. Swingline Loans. (a) Swingline Commitment. On the terms and subject to the conditions and relying upon the representations and warranties herein set forth, the Swingline Lender agrees to continue Existing Swingline Loans and to make loans to the Borrower at any time and from time to time on and after the Effective Date and until the earlier of the Revolving Credit Maturity Date and the termination of the Revolving Credit Commitments in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of all Swingline Loans exceeding \$5,000,000 in the aggregate or (ii) the Aggregate Revolving Credit Exposure, after giving effect to any Swingline Loan, exceeding the Total Revolving Credit Commitment. Each Swingline Loan shall be in a principal amount that is an integral multiple of \$250,000. The Swingline Commitment may be terminated or reduced from time to time as provided herein. Within the foregoing limits, the Borrower may borrow, pay or prepay and reborrow Swingline Loans hereunder, on and after the Effective Date and prior to the Revolving Credit Maturity Date, subject to the terms, conditions and limitations set forth herein.

(b) Swingline Loans. The Borrower shall notify the Administrative Agent by telephone (promptly confirmed in writing), not later than 12:00 (noon), New York City time, on the day of a proposed Swingline Loan. Such notice shall be delivered on a Business Day, shall be irrevocable and shall refer to this Agreement and shall specify the requested date (which shall be a Business Day) and amount of such Swingline Loan. The Administrative Agent will promptly advise the Swingline Lender of any notice received from the Borrower pursuant to this paragraph (b). The Swingline Lender will make each Swingline Loan available to the Borrower by means of a credit to the general deposit account of the Borrower with the Swingline Lender by 3:00 p.m. on the date such Swingline Loan is so requested.

(c) Prepayment. The Borrower shall have the right at any time and from time to time to prepay any Swingline Loan, in whole or in part, upon giving telephonic notice (promptly confirmed in writing) to the Swingline Lender and to the Administrative Agent before 12:00 (noon), New York City time on the date of prepayment at the Swingline Lender's address for notices specified on Schedule 2.01. Any prepayment in part of a Swingline Loan shall be in an amount that is an integral multiple of \$250,000. All principal payments of Swingline Loans shall be accompanied by accrued interest on the principal amount being repaid to but excluding the date of payment.

(d) Interest. Each Swingline Loan shall be an ABR Loan and, subject to the provisions of Section 2.07, shall bear interest as provided in Section 2.06(a).

(e) Participations. The Swingline Lender may by written notice given to the Administrative Agent not later than 12:00 (noon), New York City time, on any Business Day require the Revolving Credit Lenders to acquire participations in all or a portion of the Swingline Loans outstanding. Such notice shall specify the aggregate amount of Swingline Loans in which Revolving Credit Lenders shall participate. The Administrative Agent will, promptly upon receipt of such notice, give notice to each Revolving Credit

Lender, specifying in such notice such Lender's Pro Rata Percentage of such Swingline Loan or Loans. In consideration and in furtherance of the foregoing, each Revolving Credit Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above, to pay to the Administrative Agent, for the account of the Swingline Lender, such Revolving Credit Lender's Pro Rata Percentage of such Swingline Loan or Loans. Each Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph (e) is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.02(c) with respect to Loans made by such Lender (and Section 2.02(c) shall apply, mutatis mutandis, to the payment obligations of the Lenders) and the Administrative Agent shall promptly pay to the Swingline Lender amounts so received by it from the Lenders. The Administrative Agent shall notify the Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph and thereafter payments in respect of such Swingline Loan shall be made to the Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from the Borrower (or other party on behalf of the Borrower) in respect of a Swingline Loan after receipt by the Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent; any such amounts received by the Administrative Agent shall be promptly remitted by the Administrative Agent to the Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lender, as their interests may appear. The purchase of participations in a Swingline Loan pursuant to this paragraph (e) shall not relieve the Borrower (or other party liable for obligations of the Borrower) of its default in respect of the payment thereof.

SECTION 2.21. Letters of Credit. (a) General. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, (i) each of the Existing Letters of Credit shall, upon the initial funding of Loans on the Closing Date and without any further action on the part of the Issuing Bank or any other Person, be deemed for all purposes to have been issued by the Issuing Bank on the Closing Date as a Letter of Credit hereunder and (ii) the Issuing Bank agrees to continue the Letters of Credit outstanding on the Effective Date. The Borrower may request the issuance of a Letter of Credit, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, appropriately completed, for the account of the Borrower, at any time and from time to time on and after the Effective Date while the Revolving Credit Commitments remain in effect and, subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, the Issuing Bank hereby agrees to issue Letters of Credit as requested at any time and from time to time on or after the Effective Date and until the earlier of (i) the termination of the Revolving Credit Commitments of all Lenders in accordance with the terms hereof and (ii) the fifth day prior to the Revolving Credit Maturity Date. This Section 2.21 shall not be construed to impose an obligation upon the Issuing Bank to issue any Letter of Credit that is inconsistent with the terms and conditions of this Agreement.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. In order to request the issuance of a Letter of Credit (or to amend, renew or extend an existing Letter of Credit), the Borrower shall hand deliver or telecopy to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, the date of issuance, amendment, renewal or extension, the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) below), the amount and currency of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare such Letter of Credit. Following receipt of such notice and prior to the issuance of the requested Letter of Credit or the applicable amendment, renewal or extension, the Administrative Agent shall notify the Borrower and the Issuing Bank of the amount of the Aggregate Revolving Credit Exposure after giving effect to (i) the issuance, amendment, renewal or extension of such Letter of Credit, (ii) the issuance or expiration of any other Letter of Credit that is to be issued or will expire prior to the requested date of issuance of such Letter of Credit and (iii) the borrowing or repayment of any Revolving Credit Loans or Swingline Loans that (based upon notices delivered to the Administrative Agent by the Borrower) are to be borrowed or repaid prior to the requested date of issuance of such Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if, and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that, after giving effect to such issuance, amendment, renewal or extension (i) the L/C Exposure shall not exceed \$50,000,000, (ii) the Aggregate Revolving Credit Exposure shall not exceed the Total Revolving Credit Commitment and (iii) the Alternate Currency L/C Exposure shall not exceed \$25,000,000. Compliance with clause (ii) of the preceding sentence shall be determined based upon the assumption that (A) each Letter of Credit remains outstanding and undrawn in accordance with its terms until its expiration date (taking into account any rights of renewal or extension that do not require written notice by or consent of the Issuing Bank, in its sole discretion, in order to effect such renewal or extension) and (B) the Revolving Credit Commitments shall not be reduced voluntarily pursuant to Section 2.09(b).

(c) Expiration Date. The Borrower may elect that Letters of Credit which represent up to \$25,000,000 in the aggregate of the L/C Exposure shall expire on the date that is five Business Days prior to the Revolving Credit Maturity Date, unless such Letters of Credit expire by their terms on an earlier date. Each of the remaining Letters of Credit shall expire at the close of business on the earlier of the first anniversary of issuance and the date that is five Business Days prior to the Revolving Credit Maturity Date, unless such Letter of Credit expires by its terms on an earlier date, provided that any Letter of Credit with a one-year term may provide for the renewal thereof for additional one-year periods (which shall in no event extend beyond the date that is five Business Days prior to the Revolving Credit Maturity Date).

(d) Participations. By the issuance (or in the case of the Existing Letters of Credit, deemed issuance) of a Letter of Credit and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each such Lender hereby acquires from the applicable Issuing Bank, a participation in such Letter of Credit equal to such Lender's Pro Rata Percentage of the aggregate amount available to be drawn under such Letter of Credit, effective upon the issuance of such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Pro Rata Percentage of each L/C Disbursement (or, the case of an L/C Disbursement denominated in an Alternative Currency, such Lender's Pro Rata Percentage of the Assigned Dollar Value of such L/C Disbursement) made by the Issuing Bank and not reimbursed by the Borrower (or, if applicable, another party pursuant to its obligations under any other Loan Document) forthwith on the date due as provided in Section 2.02(f). Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph (d) in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever; provided, however, that no Lender shall be required to make any such payment with respect to any wrongful payment or disbursement made under any Letter of Credit as a result of the gross negligence or wilful misconduct of the Issuing Bank.

(e) Reimbursement. If the Issuing Bank shall make any L/C Disbursement in respect of a Letter of Credit, the Borrower shall pay to the Administrative Agent, not later than three hours after the Borrower shall have received notice from the Issuing Bank that payment of such draft will be made, or, if the Borrower shall have received such notice later than 2:00 p.m., New York City time, on any Business Day, not later than 10:00 a.m., New York City time, on the immediately following Business Day an amount equal to such L/C Disbursement (or, in the case of an L/C Disbursement denominated in an Alternative Currency, the Assigned Dollar Value of such L/C Disbursement).

(f) Obligations Absolute. The Borrower's obligations to reimburse L/C Disbursements as provided in paragraph (e) above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under any and all circumstances whatsoever, and irrespective of:

(i) any lack of validity or enforceability of any Letter of Credit;

(ii) any amendment or waiver of or any consent to departure from all or any of the provisions of any Letter of Credit made with the consent of the Borrower;

(iii) the existence of any claim, setoff, defense or other right that the Borrower, any other party guaranteeing, or otherwise obligated with, the Borrower, any Subsidiary or other Affiliate thereof or any other Person may at any time have against the beneficiary under any Letter of Credit, the Issuing Bank, the Administrative Agent or any Lender or any other Person, whether in connection with this Agreement, any other Loan Document or any other related or unrelated agreement or transaction;

(iv) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; provided, however, that payment by the Issuing Bank under such Letter of Credit against presentation of such draft or document shall not have constituted gross negligence or wilful misconduct of the Issuing Bank;

(v) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit; provided, however, that payment by the Issuing Bank under such Letter of Credit against presentation of such draft or document shall not have constituted gross negligence or wilful misconduct of the Issuing Bank; and

(vi) any other act or omission to act or delay of any kind of the Issuing Bank, the Lenders, the Administrative Agent or any other Person or any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of the Borrower's obligations hereunder; provided, however, that such other act, omission or delay shall not constitute gross negligence or wilful misconduct of the Issuing Bank.

It is understood that in making any payment under any Letter of Credit (i) the Issuing Bank's exclusive reliance on the documents presented to it under such Letter of Credit as to any and all matters set forth therein, including reliance on the amount of any draft presented under such Letter of Credit, whether or not the amount due to the beneficiary thereunder equals the amount of such draft and whether or not any document presented pursuant to such Letter of Credit proves to be insufficient in any respect, if such document on its face appears to be in order, and whether or not any other statement or any other document presented pursuant to such Letter of Credit proves to be forged or invalid or any statement therein proves to be inaccurate or untrue in any respect whatsoever and (ii) any noncompliance in any immaterial respect of the documents presented under such Letter of Credit with the terms thereof shall, in each case, be deemed not to constitute wilful misconduct or gross negligence of the Issuing Bank.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall as promptly as possible give telephonic notification, confirmed by telecopy, to the Administrative Agent and the Borrower of such demand for payment and whether the Issuing Bank has made or will make an L/C Disbursement thereunder; provided, however, that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such L/C Disbursement. The Administrative Agent shall promptly give each Lender notice thereof.

(h) Interim Interest. If the Issuing Bank shall make any L/C Disbursement in respect of a Letter of Credit, then, unless the Borrower shall reimburse such L/C Disbursement in full on such date, the unpaid amount thereof shall bear interest for the account of the Issuing Bank, for each day from and including the date of such L/C Disbursement, to but excluding the earlier of the date of payment or the date on which interest shall commence to accrue thereon as provided in paragraph (e) above, at the rate per annum that would apply to such amount if such amount were an ABR Loan.

(i) Resignation or Removal of the Issuing Bank. The Issuing Bank may resign at any time by giving 180 days' prior written notice to the Administrative Agent, the Lenders and the Borrower, and may be removed at any time by the Borrower by notice to the Issuing Bank, the Administrative Agent and the Lenders. Subject to this paragraph (i), upon the acceptance of any appointment as the Issuing Bank hereunder by a successor Issuing Bank, such successor shall succeed to and become vested with all the interests, rights and obligations of the retiring Issuing Bank and the retiring Issuing Bank shall be discharged from its obligations to issue additional Letters of Credit hereunder. At the time such removal or resignation shall become effective, the Borrower shall pay all accrued and unpaid fees pursuant to Section 2.05(d)(ii). The acceptance of any appointment as the Issuing Bank hereunder by a successor Lender shall be evidenced by an agreement entered into by such successor, in a form satisfactory to the Borrower and the Administrative Agent, and, from and after the effective date of such agreement, (i) such successor Lender shall have all the rights and obligations of the previous Issuing Bank under this Agreement and the other Loan Documents and (ii) references herein and in the other Loan Documents to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the resignation or removal of the Issuing Bank hereunder, the retiring Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement and the other Loan Documents with respect to Letters of Credit issued by it prior to such resignation or removal, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, the Borrower shall, on the Business Day it receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Revolving Credit Lenders holding participations in outstanding Letters of Credit

representing greater than 50% of the aggregate undrawn amount (or Assigned Dollar Value as of the date of such acceleration) of all outstanding Letters of Credit) of (i) such Event of Default and (ii) the amount to be deposited, deposit in an account with the Collateral Agent, for the benefit of the Revolving Credit Lenders, an amount in cash equal to the L/C Exposure as of such date. Such deposit shall be held by the Collateral Agent as collateral for the payment and performance of the Obligations. The Collateral Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits in Permitted Investments, which investments shall be made at the option and sole discretion of the Collateral Agent, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall (i) automatically be applied by the Collateral Agent to reimburse the Issuing Bank for L/C Disbursements for which it has not been reimbursed, (ii) be held for the satisfaction of the reimbursement obligations of the Borrower for the L/C Exposure at such time and (iii) if the maturity of the Loans has been accelerated (but subject to the consent of Revolving Credit Lenders holding participations in outstanding Letters of Credit representing greater than 50% of the aggregate undrawn amount (or Assigned Dollar Value as of the date of such acceleration) of all outstanding Letters of Credit), be applied to satisfy the Obligations. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after the earlier of (i) the date on which all Events of Default have been cured or waived and (ii) the expiration and return to the Issuing Bank of all outstanding Letters of Credit.

(k) Calculation Date Valuations. On each Calculation Date on which there are outstanding any Letters of Credit denominated in an Alternative Currency, the Administrative Agent shall determine, and shall promptly notify the Borrower and the Revolving Credit Lenders of, the aggregate Assigned Dollar Value of such Letters of Credit (which determination shall be conclusive in the absence of manifest error). If, on any Calculation Date, the aggregate Alternative Currency L/C Exposure exceeds \$25,000,000, then the Borrower shall deposit in an account with the Collateral Agent, for the benefit of the Revolving Credit Lenders, an amount in cash in Dollars equal to such excess (such amounts to be held and applied by the Collateral Agent in accordance with the second through sixth sentences of Section 2.21(j) and to be released to the Borrower to the extent of any reduction in such excess).

SECTION 2.22. Unavailability of ECU. If the Administrative Agent at any time prior to the commencement of the third stage of EMU determines (after consultation with the Lenders) that:

(a) the ECU has ceased to be utilized as the basic accounting unit of the European Community;

(b) for reasons affecting the market in ECU generally, the ECU is not freely traded between banks internationally; or

(c) it is illegal, impossible or impracticable for payments to be made hereunder in ECU,

then the Administrative Agent may, in its discretion but after consultation with the Borrower and the Lenders, declare (such declaration to be binding on all the parties hereto) that any payment made or to be made thereafter which, but for this provision, would have been payable in ECU shall be made in a component currency of the ECU or Dollars (as selected by the Administrative Agent after consultation with the Borrower and the Lenders) (the "Selected Currency"). The calculation of any amount to be paid in a Selected Currency shall be made by the Administrative Agent on the date that such payment is due (or, if such day is not a Business Day in the relevant Selected Currency, the next succeeding Business Day). The amount of the Selected Currency shall be the equivalent on the date that is the third Business Day prior to date of payment (the "Measurement Date") of the components of the ECU when it was most recently used in the European Monetary System, provided that if the ECU is being used by public institutions of or within the European Community on the Measurement Date, the Administrative Agent shall calculate the equivalent of such payment in the Selected Currency by using the currency amounts that are components of the ECU which are used by such public institutions on the Measurement Date.

### ARTICLE III. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to each of the Lenders that:

SECTION 3.01. Organization; Powers. The Borrower and each of the Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, (c) is qualified to do business and is in good standing in every jurisdiction where such qualification is required, except where the failure so to qualify or be in good standing would not result in a Material Adverse Effect, and (d) has the corporate power and authority to execute, deliver and perform its obligations under each of the Loan Documents and each other agreement or instrument contemplated thereby to which it is or will be a party and, in the case of the Borrower, to borrow hereunder. The ESOP (a) has been duly authorized, organized and established by all necessary corporate action on the part of the Borrower and (b) is a legal and valid employee stock ownership plan within the meaning of Section 4975(e)(7) of the Code and Treasury Regulation Section 54.4975-11 and is duly qualified under Section 401(a) of the Code.

SECTION 3.02. Authorization. The execution, delivery and performance by each Loan Party of each of the Loan Documents to which it is a party and the borrowings hereunder, the creation of the security interests contemplated thereby and the other transactions contemplated hereby and thereby (a) have been duly authorized by all requisite corporate and, if required, stockholder action and (b) will not (i) violate (A) any provision of law, statute, rule or regulation, other than any law, statute, rule or regulation, the violation of which will not result in a Material Adverse Effect, or of the certificate or articles of incorporation or other constitutive documents or by-laws of the Borrower or any Subsidiary, (B) any order of any Governmental Authority or (C) any material provision of any material indenture, agreement or other instrument to which the Borrower or any Subsidiary is a party or by which any of them or any of their property (including the Mortgaged Properties) or assets is or may be bound, (ii) be in conflict with, result in a breach of, constitute (alone or with notice or lapse of time or both) a default under or give rise to any right to accelerate any material obligation on the part of the Borrower or any Subsidiary under any such indenture, agreement or other instrument or (iii) result in the creation or imposition of any Lien (other than any Lien created under the Security Documents) upon or with respect to any property or assets now owned or hereafter acquired by the Borrower or any Subsidiary.

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by the Borrower and each other Loan Party a party thereto will constitute, a legal, valid and binding obligation of the Borrower and such Loan Party enforceable against the Borrower and such Loan Party in accordance with its terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws affecting creditors' rights generally and to general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

SECTION 3.04. Approvals. (a) No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required in connection with the Transactions, except for (i) the filing of Uniform Commercial Code financing statements and filings with the United States Patent and Trademark Office and the United States Copyright Office, (ii) recordation of the Mortgages and (iii) such as have been made or obtained and are in full force and effect.

(b) No consent or authorization of any Person (other than any Governmental Authority) is required in connection with the Transactions except (i) such as have been obtained and are in full force and effect or (ii) such the failure of which to obtain could not reasonably be expected to have a Material Adverse Effect.

SECTION 3.05. Financial Statements. (a) The Borrower has heretofore furnished to the Lenders its consolidated balance sheets and statements of income and changes in financial condition as of and for the fiscal years ended December 31, 1997, December 31, 1996, December 31, 1995, and December 31, 1994, audited by and

accompanied by the opinion of Arthur Andersen & Co., independent public accountants. Such financial statements present fairly the financial condition and results of operations of the Borrower and its consolidated subsidiaries as of such dates and for such periods and were prepared in accordance with GAAP applied on a consistent basis. Such balance sheets and the notes thereto disclose all material liabilities, direct or contingent, of the Borrower and its consolidated subsidiaries as of the dates thereof.

(b) The Borrower has heretofore furnished to the Lenders an unaudited pro forma consolidated balance sheet as of December 31, 1998, which was prepared giving effect to the Rockwell Acquisition as if it had occurred on September 30, 1998. Such pro forma balance sheet has been prepared based on the assumptions used to prepare the pro forma financial information contained in the September Confidential Information Memorandum, is based on the best information available to the Borrower as of the date of delivery thereof, accurately reflects all adjustments required to be made to give effect to the Rockwell Acquisition and presents fairly on a pro forma basis the estimated consolidated financial position of the Borrower and its subsidiaries as of December 31, 1998, assuming that the Rockwell Acquisition had actually occurred at September 30, 1998.

(c) The Borrower has heretofore furnished to the Lenders an unaudited pro forma consolidated statement of income for the 12 month period ended December 31, 1998, which was prepared giving effect to the Rockwell Acquisition as if it had occurred on September 30, 1998. Such statement of income is based on the best information available to the Borrower as of the date of delivery thereof, accurately reflects all adjustments required to be made to give effect to the Rockwell Acquisition and presents fairly on a pro forma basis the estimated results of operations of the Borrower and its consolidated subsidiaries for the 12 month period ended December 31, 1998, assuming that the Rockwell Acquisition had actually occurred on September 30, 1998.

SECTION 3.06. No Material Adverse Change. There has been no material adverse change in the business, assets, operations, properties, financial condition, contingent liabilities or material agreements of the Borrower and the Subsidiaries, taken as a whole, since December 31, 1997.

SECTION 3.07. Title to Properties; Possession Under Leases.  
(a) Each of the Borrower and the Subsidiaries has good and marketable title to, or valid leasehold interests in, all its material properties and assets (including all Mortgaged Property). All such material properties and assets are free and clear of Liens, other than Liens expressly permitted by Section 6.02. No material portion of any Mortgaged Property shall be subject to any lease, license, sublease or other agreement granting to any person any right to use, occupy or enjoy the same.

(b) Each of the Borrower and the Subsidiaries has complied with all obligations under all material leases to which it is a party and all such leases are in full force and effect. Each of the Borrower and the Subsidiaries enjoys peaceful and undisturbed possession under all such material leases under which it is a tenant.

(c) Except as set forth on Schedule 3.07(c), the Borrower has not received any notice of, nor has any knowledge of, any pending or contemplated condemnation proceeding affecting the Mortgaged Properties or any sale or disposition thereof in lieu of condemnation.

(d) Except as set forth on Schedule 3.07(d), the Borrower is not obligated under any right of first refusal, option or other contractual right to sell, assign or otherwise dispose of any Mortgaged Property or any interest therein.

SECTION 3.08. Subsidiaries. (a) Schedule 3.08 sets forth as of the Effective Date a list of all Subsidiaries and the percentage ownership interest of the Borrower therein.

(b) Cobra Canada Inc. does not have any material assets, properties or business operations.

SECTION 3.09. Litigation; Compliance with Laws. (a) Except as set forth on Schedule 3.09, there are no actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property, assets or rights of any such Person (i) that involve any Loan Document or the Transactions or (ii) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(b) None of the Borrower or any of the Subsidiaries or any of their respective material properties or assets is in violation of, nor will the continued operation of their material properties and assets as currently conducted violate, any law, rule, regulation or statute (including any zoning, building, Environmental Law, ordinance, code or approval or any building permits) or any restrictions of record or agreements affecting the Mortgaged Property, or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority, where such violation or default could reasonably be expected to result in a Material Adverse Effect.

(c) To the extent required by applicable law in the jurisdiction in which each Mortgaged Property is located, certificates of occupancy and permits are in effect for such Mortgaged Property as currently constructed. True and complete copies of all certificates of occupancy and permits with respect to each Mortgaged Property have been delivered to the Collateral Agent as mortgagee.

SECTION 3.10. Agreements. (a) Neither the Borrower nor any of the Subsidiaries is a party to any agreement or instrument or subject to any corporate restriction that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(b) Neither the Borrower nor any of the Subsidiaries is in default in any manner under any provision of any indenture or other agreement or instrument evidencing Indebtedness, or any other material agreement or instrument to which it is a party or by which it or any of its properties or assets are or may be bound, where such default could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11. Federal Reserve Regulations. (a) Neither the Borrower nor any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

(b) No part of the proceeds of any Loan or any Letter of Credit has been or will be used by the Borrower or any Subsidiary, whether directly or indirectly, and whether immediately, incidentally or ultimately, (i) to purchase or carry Margin Stock or to extend credit to others for the purpose of purchasing or carrying Margin Stock or to refund indebtedness originally incurred for such purpose, or (ii) for any purpose that entails a violation of, or that is inconsistent with, the provisions of the Regulations of the Board, including Regulation G, U and X.

SECTION 3.12. Investment Company Act; Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary (a) is an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) is a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.13. Use of Proceeds. The Borrower will use the proceeds of the Loans and will request the issuance of Letters of Credit only for the purposes specified in the preamble to this Agreement.

SECTION 3.14. Tax Returns. The Borrower and each Subsidiary have filed or caused to be filed all Federal tax returns and material state and local tax returns required to have been filed by it or with respect to it and has paid or accrued or caused to be paid or accrued all taxes shown to be due and payable on such returns or on any assessments received by it or with respect to it, except taxes that are being contested in good faith by appropriate proceedings and for which it shall have set aside on its books adequate reserves in accordance with GAAP. The Borrower and each Subsidiary has filed or made adequate provision in accordance with GAAP on its books for any material taxes payable by it in connection with the recapitalization transactions of the Borrower and the Subsidiaries consummated on or about January 31, 1995 (including any such taxes payable in respect of indemnities).

SECTION 3.15. No Material Misstatements. No written information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto contained, when taken as a whole, as of the date such information, report, financial statement, exhibit or schedule was furnished, contains or will contain any material misstatement of fact or omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading; provided, however, that, to the extent any such information was based upon or constituted a forecast or projection, the Borrower represents that it acted in good faith and utilized assumptions believed by it to be reasonable.

SECTION 3.16. Employee Benefit Plans. The Borrower, each Subsidiary and each ERISA Affiliate is in compliance with the applicable provisions of ERISA and the Code and the regulations and published interpretations thereunder, except where failure to comply therewith could not reasonably be expected to have a Material Adverse Effect. No Reportable Event has occurred within the five-year period prior to the date upon which this representation is made or deemed made or exists in respect of any Plan. The present value of all benefit liabilities under each Plan (based on those assumptions that would be used in a termination of such Plan) did not, as of the last annual valuation date applicable thereto, exceed by more than \$5,000,000 the value of the assets of such Plan, on a termination basis. None of the Borrower, any Subsidiary or any ERISA Affiliate has incurred any Withdrawal Liability in an amount that could reasonably be expected to result in a Material Adverse Effect. None of the Borrower, any Subsidiary or any ERISA Affiliate has received any notification that any Multiemployer Plan is in reorganization or has been terminated within the meaning of Title IV of ERISA, and no Multiemployer Plan is reasonably expected to be in reorganization or to be terminated where such reorganization or termination has resulted or could reasonably be expected to result, through increases in the contributions required to be made to such Plan or otherwise, in a Material Adverse Effect.

SECTION 3.17. Environmental Matters. (a) The properties now or formerly owned or operated by the Borrower and the Subsidiaries (the "Properties") do not contain any Hazardous Materials in amounts or concentrations which (i) constitute, or constituted a violation of, or (ii) could give rise to liability under, Environmental Laws resulting from any Release of Hazardous Materials during the Borrower's or the Subsidiaries' ownership or operation of the Properties or, to the knowledge of the Borrower, at any other time, which violations and liabilities, in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

(b) The Properties and all operations of the Borrower and the Subsidiaries are in compliance, and, to the extent the Borrower or the Subsidiaries owned or operated such Properties in the past three years, in the last three years (i) have been in compliance, with all Environmental Laws and all Environmental Permits and (ii) all necessary Environmental Permits have been obtained and are in effect, except to the extent that such non-compliance or failure to obtain any necessary permits, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(c) During the time of the Borrower's or the Subsidiaries' ownership or operation of the Properties and, to the knowledge of the Borrower, at any other time, there have been no Releases at, from, under or proximate to the Properties or otherwise in connection with the operations of the Borrower or the Subsidiaries, which Releases, in the aggregate, could reasonably be expected to result in a Material Adverse Effect, and none of the Properties currently owned or operated by the Borrower and the Subsidiaries are listed on the Federal National Priorities List (under CERCLA and as defined pursuant to Environmental Law).

(d) Neither the Borrower nor any of the Subsidiaries has received any Environmental Claim in connection with the Properties or the operations of the Borrower or the Subsidiaries or with regard to any Person whose liabilities for environmental matters the Borrower or the Subsidiaries has retained or assumed, in whole or in part, contractually, by operation of law or otherwise, which, in the aggregate, could reasonably be expected to result in a Material Adverse Effect, nor do the Borrower or the Subsidiaries have reason to believe that any such notice will be received or is being threatened.

(e) Hazardous Materials have not been transported from the Properties by the Borrower or the Subsidiaries or, to the knowledge of Borrower, any other party, nor have Hazardous Materials been generated, treated, stored or disposed of at, on or under any of the Properties in a manner that could reasonably be expected to give rise to liability under any Environmental Law that would constitute a Material Adverse Effect, nor have the Borrower or the Subsidiaries retained or assumed any liability, contractually, by operation of law or otherwise, with respect to the generation, treatment, storage or disposal of Hazardous Materials, which transportation, generation, treatment, storage or disposal, or retained or assumed liabilities, in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.18. Insurance. Schedule 3.18 sets forth a true, complete and correct description of all material insurance maintained by the Borrower or by the Borrower for its Subsidiaries as of the Effective Date. As of each such date, such insurance is in full force and effect and all premiums have been duly paid. The Borrower and its Subsidiaries have insurance in such amounts and covering such risks and liabilities as are in accordance with normal industry practice.

SECTION 3.19. Solvency. Immediately after the consummation of the Transactions and immediately following the making of each Loan made on the Closing Date and on the Effective Date and after giving effect to the application of the proceeds of such Loans, (a) the fair salable value of the assets of the Borrower on a consolidated basis will exceed the amount that will be required to be paid on or in respect of the existing debts and other liabilities (including contingent liabilities) of the Borrower on a consolidated basis as

they mature, (b) the assets of the Borrower on a consolidated basis will not constitute unreasonably small capital to carry out its businesses as conducted or as proposed to be conducted, including the capital needs of the Borrower on a consolidated basis (taking into account, in each case, the particular capital requirements of the businesses conducted by the Borrower and the projected capital requirements and capital availability of such businesses), and (c) the Borrower does not intend to, nor does it believe that it or any Subsidiary will, incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be received by it and the amounts to be payable on or in respect of its obligations).

SECTION 3.20. Labor Matters. Except as set forth on Schedule 3.20, as of the Effective Date, there are no strikes pending or threatened against the Borrower or any Subsidiary. The hours worked and payment made to employees and the Subsidiaries have not been in violation in any material respect of the Fair Labor Standards Act or any other applicable law dealing with such matters. All payments due from the Borrower or any Subsidiary, or for which any claim may be made against the Borrower or any Subsidiary, on account of wages and employee health and welfare insurance and other benefits, have been paid or, to the extent required under GAAP, accrued as a liability on the books of the Borrower or such Subsidiary, except to the extent that failure to make such payment or accrual could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

SECTION 3.21. Security Documents. (a) The Pledge Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Pledge Agreement) and proceeds thereof and, when the Collateral is delivered to the Collateral Agent, the Pledge Agreement shall constitute a fully perfected first priority Lien on, and security interest in, all right, title and interest of the pledgors thereunder in such Collateral and the proceeds thereof, in each case prior and superior in right to any other Person.

(b) The Security Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Security Agreement) and proceeds thereof and, when financing statements in appropriate form are filed in the offices specified on Schedule 3.21, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in such Collateral and the proceeds thereof, in each case prior and superior in right to any other Person, other than with respect to the rights of Persons pursuant to Liens expressly permitted by Section 6.02.

(c) The Mortgages are effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable Lien on all of the Loan Parties' right, title and interest in and to the Mortgaged Properties thereunder and the

proceeds thereof, and when the Mortgages are filed in the offices specified on Schedule 3.21, the Mortgages shall constitute fully perfected Liens on, and security interests in, all right, title and interest of the Loan Parties in such Mortgaged Property and the proceeds thereof, in each case prior and superior in right to any other Person, other than with respect to the rights of Persons pursuant to Liens expressly permitted by Section 6.02.

(d) The Intellectual Property Security Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Intellectual Property Security Agreement) and the proceeds thereof, and when the Intellectual Property Security Agreement is (or appropriate assignments are) filed in the United States Patent and Trademark Office and the United States Copyright Office, the Intellectual Property Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in such Collateral and the proceeds thereof, in each case prior and superior in right to any other Person, other than with respect to the rights of Persons pursuant to Liens expressly permitted by Section 6.02.

SECTION 3.22. Location of Real Property and Leased Premises.

(a) Schedule 3.22(a) lists completely and correctly as of the Effective Date all real property owned by the Borrower and the Subsidiaries and the addresses thereof. The Borrower and the Subsidiaries own in fee all the real property set forth on Schedule 3.22(a).

(b) Schedule 3.22(b) lists completely and correctly as of the Effective Date all real property leased by the Borrower and the Subsidiaries and the addresses thereof. The Borrower and the Subsidiaries have valid leases in all the real property set forth on Schedule 3.22(b).

SECTION 3.23. Year 2000 Compliance. Any reprogramming required to permit the proper functioning, in and following the year 2000, of (a) the computer systems of the Borrower and each of the Subsidiaries and (b) equipment containing embedded microchips (including systems and equipment supplied by others or with which the systems of the Borrower or any Subsidiary interface), and the testing of all such systems and equipment, as so reprogrammed, will be completed in all material respects by June 30, 1999. The cost to the Borrower and the Subsidiaries of such reprogramming and testing and of the reasonably foreseeable consequences of year 2000 to the Borrower and the Subsidiaries (including the cost of (i) reprogramming errors and (ii) the failure of others' systems or equipment) will not result in a Default or a Material Adverse Effect.

## ARTICLE IV. CONDITIONS OF LENDING

SECTION 4.01. All Credit Events. On the date of each Borrowing (other than any Revolving Credit Loan deemed made pursuant to Section 2.02(f)), including each Borrowing of a Swingline Loan, and on the date of each issuance of a Letter of Credit (each such event, a "Credit Event"):

(a) The Administrative Agent shall have received a notice of such Borrowing as required by Section 2.03 (or such notice shall have been deemed given in accordance with Section 2.03) or, in the case of the issuance of a Letter of Credit, the Issuing Bank and the Administrative Agent shall have received a notice requesting the issuance of such Letter of Credit as required by Section 2.21(b) or, in the case of the Borrowing of a Swingline Loan, the Swingline Lender and the Administrative Agent shall have received a notice requesting such Swingline Loan as required by Section 2.20(b).

(b) Each representation and warranty set forth in Article III shall be true and correct in all material respects on and as of the date of such Credit Event with the same effect as though made on and as of such date, except to the extent such representation and warranty expressly relate to an earlier date.

(c) At the time of and immediately after such Credit Event, no Event of Default or Default shall have occurred and be continuing.

Each Credit Event, including the transactions occurring on the Effective Date, shall be deemed to constitute a representation and warranty by the Borrower on the date of such Credit Event, as to the matters specified in paragraphs (b) and (c) above. Continuations and conversions of outstanding Borrowings pursuant to Section 2.10 shall not be deemed to be Borrowings for the purpose of this Section 4.01.

SECTION 4.02. First Credit Event. The obligations of the Lenders to make Loans (other than September 1998 Term Loans) and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective until each of the following conditions is satisfied (or waived in accordance with Section 9.08) (it being understood that, notwithstanding the foregoing, the Lenders shall not be obligated to make September 1998 Term Loans until the Effective Date):

(a) The Administrative Agent shall have received, on behalf of itself, the Lenders and the Issuing Bank, a favorable written opinion of (i) Reed Smith Shaw & McClay LLP, counsel for the Borrower, substantially to the effect set forth in Exhibit I (A) dated the Closing Date, (B) addressed to the Issuing Bank, the Administrative Agent and the Lenders, and (C) covering such other matters relating to the Loan Documents and the Transactions as the Administrative Agent shall reasonably request, and the Borrower hereby instructs such counsel to deliver such opinions.

(b) All legal matters incident to this Agreement, the borrowings and extensions of credit hereunder and the Loan Documents shall be satisfactory to the Lenders, to the Issuing Bank and to Cravath, Swaine & Moore, counsel for the Administrative Agent.

(c) The Administrative Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of each Loan Party, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of each Loan Party as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of each Loan Party dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of such Loan Party as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of such Loan Party authorizing the execution, delivery and performance of the Loan Documents to which such Person is a party and, in the case of the Borrower, the Borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of such Loan Party have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of such Loan Party; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Lenders, the Issuing Bank or Cravath, Swaine & Moore, counsel for the Administrative Agent, may reasonably request.

(d) The Administrative Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in Sections 4.01(b) and 4.01(c).

(e) The Administrative Agent shall have received all Fees and other amounts due and payable on or prior to the Closing Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder or under any other Loan Document.

(f) The Pledge Agreement shall have been duly executed by the parties thereto and delivered to the Collateral Agent and shall be in full force and effect. All the outstanding capital stock of each Domestic Subsidiary, 65% of the outstanding capital stock of each Foreign Subsidiary (other than Cobra Europe S.A., Greysam Railway Friction Products and Vapor UK Limited) that is owned directly by the Borrower or any Domestic Subsidiary and the entire interest of the Borrower in the Pledged Debt Securities (as such term is defined in the Pledge Agreement) shall have been duly and validly pledged thereunder to the Collateral Agent for the ratable benefit of the Secured Parties and certificates (other than the certificates for the Domestic Subsidiaries and Foreign Subsidiaries referred to in Section 5.13(a)) representing such shares, accompanied by stock powers endorsed in blank, shall be in the actual possession of the Collateral Agent.

(g) The Security Agreement and the Intellectual Property Security Agreement shall have been duly executed by the Loan Parties party thereto and shall have been delivered to the Collateral Agent and shall be in full force and effect on such date and each document (including each Uniform Commercial Code financing statement) required by law or reasonably requested by the Administrative Agent to be filed, registered or recorded in order to create in favor of the Collateral Agent for the benefit of the Secured Parties a valid, legal and perfected first-priority security interest in and lien on the Collateral (subject to any Lien expressly permitted by Section 6.02) described in such agreement shall have been delivered to the Collateral Agent.

(h) The Collateral Agent shall have received evidence reasonably satisfactory to it of the termination of the Original Credit Agreement and the discharge of all the obligations of the Borrower thereunder. The Collateral Agent shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Loan Parties in the States (or other jurisdictions) in which are located the chief executive offices of such Persons or any offices of such Persons in which records have been kept relating to Accounts (as defined in the Security Agreement) and the other jurisdictions in which Uniform Commercial Code filings (or equivalent filings) are to be made pursuant to the preceding paragraph (except for results with respect to such Loan Parties in such jurisdictions as are referred to in Schedule 4(c) to the Perfection Certificate, which results shall be delivered pursuant to Section 5.13(b)), together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Administrative Agent that the Liens indicated in any such financing statement (or similar document) would be permitted under Section 6.02 or have been released.

(i) The Collateral Agent shall have received a Perfection Certificate with respect to the Loan Parties dated the Closing Date and duly executed by a Responsible Officer of the Borrower.

(j) (i) Each of the Security Documents, in form and substance satisfactory to the Lenders, relating to each of the Mortgaged Properties shall have been duly executed by the parties thereto and delivered to the Collateral Agent and shall be in full force and effect, (ii) each of such Mortgaged Properties shall not be subject to any Lien other than those permitted under Section 6.02, (iii) each of such Security Documents shall have been filed and recorded in the recording office as specified on Schedule 3.22 (or a lender's title insurance commitment, in form and substance reasonably acceptable to the Collateral Agent, insuring the lien of such Security Document as a first lien on such Mortgaged Property (subject to any Lien listed on Schedule B of any related lender's title insurance policy delivered to the Collateral Agent prior to the Closing Date) shall have been received by the Collateral Agent) and, in connection therewith, the Collateral Agent shall have received evidence reasonably satisfactory to it of each such filing and recordation and (iv) the Collateral Agent shall have received such other documents, including a policy or policies of title insurance issued by a nationally recognized title insurance company, together with such endorsements, coinsurance and reinsurance as may be reasonably requested by the Administrative Agent and the Lenders, insuring the Mortgages as valid first liens on the Mortgaged Properties, free of Liens other than those listed on Schedule B of any related lender's title insurance policy delivered to the Collateral Agent prior to the Closing Date, together with such abstracts, appraisals, confirmations (including with respect to zoning) and legal opinions as may be reasonably requested by the Administrative Agent or the Lenders.

(k) The Guarantee Agreement and the Indemnity, Subrogation and Contribution Agreement shall have been duly executed by each Guarantor and the Collateral Agent, and shall be in full force and effect.

(l) The Administrative Agent shall have received a copy of, or a certificate as to coverage under, the insurance policies required by Section 5.02 and the applicable provisions of the Security Documents.

(m) After giving effect to the Transactions, the Borrower and the Subsidiaries shall have no outstanding Indebtedness other than (i) the Loans, and (ii) the Indebtedness referred to in Section 6.01(a).

(n) The Lenders shall be reasonably satisfied as to the amount and nature of any environmental and employee health and safety exposures to which the Borrower and the Subsidiaries may be subject and the plans of the Borrower with respect thereto.

(o) The Lenders shall be reasonably satisfied with the financial statements referred to in Section 3.05(a). The consolidated financial results of the Borrower for all periods ending prior to the Closing Date shall be consistent in all material respects with the information contained in the Confidential Information Memorandum.

(p) There shall be no litigation or administrative proceedings or other legal or regulatory developments, actual or overtly threatened, that, in the reasonable judgment of the Lenders, involve a reasonable possibility of a material adverse effect on the business, assets, operations, properties, financial condition, contingent liabilities, prospects or material agreements of the Borrower and the Subsidiaries taken as a whole or the ability of any Loan Party to perform its obligations under the Loan Documents, or the ability of the parties to consummate the Transactions or the validity or enforceability of any of the Loan Documents or the rights, remedies and benefits available to the Lenders, the Issuing Bank and the Agents under the Loan Documents.

(q) There shall have been no material adverse change in the business, assets, operations, properties, financial condition, contingent liabilities, prospects or material agreements of the Borrower and the Subsidiaries since December 31, 1997.

#### ARTICLE V. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with each Lender that so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under any Loan Document shall have been paid in full and all Letters of Credit have been canceled or have expired and all amounts drawn thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, the Borrower will, and will cause each of the Subsidiaries to:

SECTION 5.01. Existence; Businesses and Properties. (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.05.

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business; maintain and operate such business in substantially the manner in which it is currently conducted and operated; comply in all material respects with all material applicable laws, rules, regulations and statutes (including any zoning, building, Environmental Law, ordinance, code or approval or any building permits or any restrictions of record or agreements affecting the Mortgaged Properties) and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair,

working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times.

(c) Maintain all financial records in accordance with GAAP.

SECTION 5.02. Insurance. (a) Keep its insurable properties adequately insured at all times by financially sound and reputable insurers; maintain such other insurance, to such extent and against such risks, including fire and other risks insured against by extended coverage, as is customary with companies of established repute in the same general area engaged in the same or similar businesses, including public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by it or the use of any products sold by it; and maintain such other insurance as may be required by law.

(b) Cause all such policies to be endorsed or otherwise amended to include a "standard" or "New York" lender's loss payable endorsement, in form and substance satisfactory to the Administrative Agent and the Collateral Agent, which endorsement shall provide that, from and after the Closing Date, (i) the insurance carrier shall give the Administrative Agent or the Collateral Agent at least 30 days' prior notice of termination of such policies and (ii) if the insurance carrier shall have received written notice from the Administrative Agent or the Collateral Agent of the occurrence of an Event of Default, the insurance carrier shall pay all proceeds otherwise payable to the Borrower or the Loan Parties under such policies directly to the Collateral Agent.

(c) If at any time the area in which the Premises (as defined in the Mortgages) are located is designated a "flood hazard area" in any Flood Insurance Rate Map published by the Federal Emergency Management Agency, obtain flood insurance in such total amount as the Collateral Agent may from time to time reasonably require, and otherwise comply with the National Flood Insurance Program as set forth in said Flood Disaster Protection Act of 1973, as it may be amended from time to time.

SECTION 5.03. Obligations and Taxes. Pay its Indebtedness and other material obligations promptly and in accordance with their terms and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Lien upon such properties or any part thereof; provided, however, that such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Borrower shall have set aside on its books adequate reserves with respect thereto in accordance with GAAP and such contest operates to suspend collection of the contested obligation, tax, assessment or charge and enforcement of a Lien and, in the case of a Mortgaged Property, there is no risk of forfeiture of such property.

SECTION 5.04. Financial Statements, Reports, etc. In the case of the Borrower, furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year, its consolidated balance sheets and related statements of operations, stockholders' equity and cash flows showing the financial condition of the Borrower and its consolidated subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such subsidiaries during such year, all audited by Arthur Andersen & Co. or other independent public accountants of recognized national standing reasonably acceptable to the Required Lenders and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Borrower on a consolidated basis in accordance with GAAP consistently applied;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year, its unaudited consolidated balance sheets and related statements of operations, stockholders' equity and cash flows showing the financial condition of the Borrower and its consolidated subsidiaries as of the close of such fiscal quarter and the results of its operations and the operations of such subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of the Borrower on a consolidated basis in accordance with GAAP, subject to normal year-end audit adjustments and the absence of notes;

(c) concurrently with any delivery of any such financial statements, a certificate of a Financial Officer (and, in the case of any financial statements being delivered under clause (a) above, a certificate of the opining accounting firm, which certificate may be limited to accounting matters and disclaim responsibility for legal interpretations), (i) certifying that no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto and (ii) setting forth computations in reasonable detail satisfactory to the Administrative Agent demonstrating (A) compliance with the covenants contained in Sections 6.13 and 6.14 and (B) the Applicable Percentage based upon the Leverage Ratio;

(d) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any of or all the functions of said Commission, or with any national securities exchange, or distributed to its shareholders, as the case may be;

(e) as soon as available, and in any event no later than 95 days after the end of each fiscal year thereafter, historical summary data for the immediately preceding year and forecasted financial projections and summary data through the end of the then-current fiscal year, in substantially the same form and format as set forth in the Confidential Information Memorandum (including a specification of the underlying assumptions and management's discussion of historical results), all certified by a Financial Officer of the Borrower to be a fair summary of such entity's results and such entity's good faith estimate of the forecasted financial projections and results of operations for the period through the then-current fiscal year;

(f) upon the earlier of (i) 95 days after the end of each fiscal year of the Borrower and (ii) the date on which the financial statements with respect to such period are delivered pursuant to clause (a) above, a certificate of a Financial Officer of the Borrower setting forth, in detail satisfactory to the Administrative Agent, the calculation and amount of Excess Cash Flow, if any, for such period; and

(g) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower, or compliance with the terms of any Loan Document, as any Lender may reasonably request.

SECTION 5.05. Litigation and Other Notices. Furnish to the Administrative Agent and each Lender prompt written notice of the occurrence of the following:

(a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) proposed to be taken with respect thereto;

(b) the filing or commencement of, or any written threat or written notice of intention of any Person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect; and

(c) any development that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect.

SECTION 5.06. ERISA. (a) Comply with the applicable provisions of ERISA and the Code and the regulations and published interpretations thereunder, except where the failure to comply therewith could not reasonably be expected to have a Material

Adverse Effect, and (b) furnish to the Administrative Agent (i) as soon as possible, and in any event within 30 days after any Responsible Officer of the Borrower either knows or has a reasonable basis to believe that any Reportable Event has occurred, that alone or together with any other Reportable Event could reasonably be expected to result in liability, of the Borrower, any Subsidiary or any ERISA Affiliate to the PBGC, a statement of a Financial Officer of the Borrower setting forth details as to such Reportable Event and the action proposed to be taken with respect thereto, together with a copy of the notice, if any, of such Reportable Event given to the PBGC, (ii) promptly after receipt thereof, a copy of any notice the Borrower, any Subsidiary or any ERISA Affiliate receives from the PBGC relating to the intention of the PBGC to terminate any Plan or Plans or to appoint a trustee to administer any Plan or Plans, (iii) within 20 Business Days after the due date for filing with the PBGC pursuant to Section 412(n) of the Code a notice of failure to make a required installment or other payment with respect to a Plan, a statement of a Financial Officer of the Borrower setting forth details as to such failure and the action proposed to be taken with respect thereto, together with a copy of such notice given to the PBGC and (iv) promptly and in any event within 30 days after receipt thereof by the Borrower, any Subsidiary or any ERISA Affiliate from the sponsor of a Multiemployer Plan, a copy of each notice received by the Borrower, any Subsidiary or any ERISA Affiliate concerning (A) the imposition of Withdrawal Liability or (B) a determination that a Multiemployer Plan is, or is expected to be, terminated or in reorganization, in each case within the meaning of Title IV of ERISA; provided, however, that no such notice will be required hereunder unless the event, when aggregated with all other events occurring at the same time, could be reasonably expected to result in liability in an amount that would exceed \$10,000,000.

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Maintain all financial records in accordance with GAAP and permit any representatives designated by any Lender to visit and inspect the financial records and the properties of the Borrower or any Subsidiary at reasonable times and upon reasonable notice and as often as reasonably requested and to make extracts from and copies of such financial records, and permit any representatives designated by any Lender to discuss the affairs, finances, properties and condition of the Borrower or any Subsidiary with the officers thereof and independent accountants therefor.

SECTION 5.08. Use of Proceeds. Use the proceeds of the Loans and request the issuance of Letters of Credit only for the purposes set forth in the preamble to this Agreement. The proceeds of all Term Loans shall be applied immediately following receipt thereof by the Borrower in the manner required by this Section 5.08.

SECTION 5.09. Compliance with Environmental Laws. Except as could not reasonably be expected to result in a Material Adverse Effect, comply, and use its reasonable best efforts to cause all lessees and other Persons occupying its Properties to comply, in all material respects with all Environmental Laws and Environmental Permits applicable to its operations and Properties; obtain and renew all material Environmental Permits necessary

for its operations and Properties; and conduct any Remedial Action required by any Governmental Authority in accordance with Environmental Laws; provided, however, that neither the Borrower nor any of the Subsidiaries shall be required to undertake any Remedial Action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and appropriate reserves are being maintained with respect to such circumstances.

SECTION 5.10. Preparation of Environmental Reports. If a Default caused by reason of a breach of Section 3.17 or 5.09 shall have occurred and be continuing, at the request of the Required Lenders through the Administrative Agent, provide to the Lenders within 45 days after such request, at the expense of the Borrower, an environmental site assessment report for the Properties (which are the subject of such default) prepared by an environmental consulting firm reasonably acceptable to the Administrative Agent, indicating the presence or absence of Hazardous Materials and the estimated cost of any compliance or Remedial Action in connection with such Properties.

SECTION 5.11. Further Assurances. Execute any and all further documents, financing statements, agreements and instruments, and take all further action (including filing Uniform Commercial Code and other financing statements, mortgages and deeds of trust) that may be required under applicable law, or which the Required Lenders, the Administrative Agent or the Collateral Agent may reasonably request, in order to effectuate the transactions contemplated by the Loan Documents and in order to grant, preserve, protect and perfect the validity and first priority of the security interests created or intended to be created by the Security Documents. In addition, if any additional Subsidiary is formed or acquired after the Closing Date, the Borrower will notify the Administrative Agent thereof and (a) the Borrower will cause any such Domestic Subsidiary to become a party to the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement and each applicable Security Document in the manner provided therein within twenty Business Days after such Subsidiary is formed or acquired and promptly take such actions to create and perfect Liens on such Subsidiary's assets to secure the Obligations as the Administrative Agent or the Required Lenders shall reasonably request and (b) if any shares of capital stock or Indebtedness of any additional Subsidiary formed or acquired after the Closing Date are owned by or on behalf of any Loan Party, the Borrower will cause such shares and promissory notes evidencing such Indebtedness to be pledged pursuant to the Pledge Agreement within five Business Days after such Subsidiary is formed or acquired (except that, if such Subsidiary is a Foreign Subsidiary, shares of common stock of such Subsidiary to be pledged pursuant to the Pledge Agreement may be limited to 65% of the outstanding shares of common stock of such Subsidiary). In addition, from time to time, the Borrower will, at its cost and expense, promptly secure the Obligations by pledging or creating, or causing to be pledged or created, perfected security interests with respect to such of its assets and properties as the Administrative Agent or the Required Lenders shall designate (it being understood that it is the intent of the parties that the Obligations shall be secured by, among other things, (a) substantially all the assets of the Borrower and its

Subsidiaries (including real and other properties acquired subsequent to the Closing Date), other than the common stock of Foreign Subsidiaries, and (b) by 65% of the common stock of each Foreign Subsidiary (other than Cobra Europe S.A., Greysam Railway Friction Products and Vapor UK Limited) that is owned directly by the Borrower or any Domestic Subsidiary). Such security interests and Liens will be created under the Security Documents and other security agreements, mortgages, deeds of trust and other instruments and documents in form and substance satisfactory to the Collateral Agent, and the Borrower will deliver or cause to be delivered to the Lenders all such instruments and documents (including legal opinions, title insurance policies, surveys and lien searches) as the Collateral Agent shall reasonably request to evidence compliance with this Section 5.11. The Borrower agrees to provide such evidence as the Collateral Agent shall reasonably request as to the perfection and priority status of each such security interest and Lien.

SECTION 5.12. Material Contracts. (a) Maintain in full force and effect (including exercising any available renewal option), and without amendment or modification, all its material contracts unless the failure so to maintain such contracts or to exercise any renewal option (or the amendments or modifications thereto), individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

(b) Give the Administrative Agent reasonable prior written notice of any amendment or modification of the Senior Unsecured Notes or the related indenture, the Long-Term Pulse Seller Note or the Pulse Subordination Agreement, or the Rockwell Senior Unsecured Credit Agreement or the Exchange Notes or the related indenture.

SECTION 5.13. Post-Closing Matters. (a) Deliver to the Collateral Agent, (i) within 30 days after the Closing Date, stock certificates representing all the outstanding capital stock of each of TFL, Inc., RFI Properties, Inc. and Stone Safety Service Corporation, accompanied by undated stock powers endorsed in blank (to the extent not previously delivered), (ii) within 60 days after the Closing Date, stock certificates representing 65% of the outstanding capital stock of each of Westinghouse International Corp., H.P. Srl., RFS(E), Ltd(UK) and Evand Pty. Ltd., accompanied by undated stock powers endorsed in blank (to the extent not previously delivered), together with a revised Schedule 1 to the Pledge Agreement (revised in order to insert therein correct references to the certificate numbers for the stock certificates being delivered pursuant to clause (i) and this clause (ii)), and (iii) within 30 days after the Closing Date, undated instruments of transfer endorsed in blank relating to the Pledged Debt Securities (as such term is defined in the Pledge Agreement).

(b) Deliver to the Collateral Agent, within 15 days after the Closing Date, the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Loan Parties and in the jurisdictions specified on Schedule 4(c) to the Perfection Certificate, together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Administrative Agent that the Liens indicated in any such financing statement (or similar document) would be permitted under Section 6.02 or have been released.

## ARTICLE VI. NEGATIVE COVENANTS

The Borrower covenants and agrees with each Lender that, so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under any Loan Document have been paid in full and all Letters of Credit have been canceled or have expired and all amounts drawn thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, the Borrower will not, and will not cause or permit any of the Subsidiaries to:

SECTION 6.01. Indebtedness. Incur, create, assume or permit to exist any Indebtedness, except:

(a) Indebtedness existing on the Closing Date and set forth on Schedule 6.01 (and any extensions, renewals or replacements of such Indebtedness so long as the principal amount of such Indebtedness is not increased);

(b) Indebtedness created under any Loan Document or under any Rockwell Senior Unsecured Credit Facility Loan Document;

(c) in the case of the Borrower, Indebtedness consisting of purchase money Indebtedness incurred in the ordinary course of business after the Closing Date to finance Capital Expenditures permitted under Section 6.11; provided, however, that (i) the sum of (A) the aggregate principal amount of any Indebtedness incurred by the Borrower pursuant to this clause (c), (B) the aggregate annual rental payments in respect of all Capital Lease Obligations incurred by the Borrower or any Subsidiary in accordance with Section 6.12 and (C) the aggregate annual payments in respect of a Sale and Leaseback Transaction incurred by the Borrower or any Subsidiary in accordance with Section 6.03 shall not exceed \$5,000,000 for any fiscal year and (ii) such Indebtedness is incurred within 90 days after the making of the Capital Expenditures financed thereby;

(d) in the case of the Borrower, Indebtedness in respect of a Sale and Leaseback Transaction permitted under Section 6.03;

(e) in the case of the Borrower, Indebtedness in respect of Capital Lease Obligations permitted under Section 6.11;

(f) in the case of the Borrower, Indebtedness in respect of Rate Protection Agreements;

(g) in the case of the Borrower, other unsecured Indebtedness in a principal amount at any time outstanding not in excess of \$15,000,000;

(h) Indebtedness of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or any other Subsidiary; provided, however, that no Indebtedness under this clause (h) may be incurred by or issued to any Subsidiary of the Borrower that is not a Guarantor;

(i) Indebtedness of any Subsidiary that is not a Guarantor in an aggregate principal amount with respect to all such Subsidiaries at any time outstanding not in excess of \$10,000,000;

(j) Indebtedness of any Subsidiary that is a Guarantor in an aggregate principal amount with respect to all such Subsidiaries at any time outstanding not in excess of \$10,000,000; and

(k) other unsecured Indebtedness in a principal amount at any time outstanding not in excess of \$100,000,000 for which the Borrower or any Subsidiary receives cash only; provided that the Borrower and the Subsidiaries shall be in compliance, on a pro forma basis after giving effect to each incurrence or creation of Indebtedness hereunder, with the covenants contained in Sections 6.13 and 6.14 recomputed as of the last day of the most recently ended fiscal quarter of the Borrower as if such Indebtedness had been incurred or created on the first day of each relevant period for testing such compliance; and provided, further, that the Borrower shall apply an amount equal to 100% of the net cash proceeds of all Indebtedness incurred or created hereunder to repay or prepay in accordance with Section 2.12, first, Rockwell Senior Unsecured Credit Facility Loans or Exchange Notes or other amounts then due and payable under the Rockwell Senior Unsecured Credit Facility Loan Documents and, second, Revolving Credit Borrowings by substantially simultaneously with (and in any event not later than the Business Day next following) the incurrence or creation of such Indebtedness, paying to the Administrative Agent an amount equal to 100% of the net cash proceeds therefrom. For the purposes of this Section 6.01(k), the term "net cash proceeds" shall mean (i) the gross proceeds in the form of cash received by the Borrower or any Subsidiary in respect of an incurrence or creation of Indebtedness hereunder, less (ii) the sum of (A) the amount, if any, of all taxes (other than income taxes) payable by the Borrower or any Subsidiary in connection with such Indebtedness and the Borrower's good-faith best estimate of the amount of all income taxes payable in connection with such Indebtedness and (B) reasonable and customary fees, commissions and expenses and other costs paid by the Borrower or any Subsidiary in connection with such Indebtedness, in each case only to the extent not already deducted in arriving at the amount referred to in clause (i) of this sentence.

SECTION 6.02. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any Person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower and its Subsidiaries existing on the Closing Date and set forth on Schedule 6.02 or on Schedule B to any lender's title insurance policy delivered to the Collateral Agent in accordance with Section 4.02(j) prior to the Closing Date (and any extension, renewal or replacement of such Liens); provided, however, that such Liens shall secure only those obligations that they secure on the Closing Date;

(b) any Lien created under the Loan Documents;

(c) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary; provided, however, that (i) such Lien is not created in contemplation of or in connection with such acquisition, and (ii) such Lien does not apply to any other property or assets of the Borrower or any Subsidiary;

(d) Liens for taxes, assessments or governmental charges not yet due and payable or that are being contested in compliance with Section 5.03;

(e) carriers', warehousemen's, mechanics', materialmen's, repairmen's, landlord's or other like Liens arising in the ordinary course of business and securing obligations that are not due and payable or, if a portion thereof is due and payable, that are being contested in compliance with Section 5.03;

(f) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(g) pledges and deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capital Lease Obligations), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(h) purchase money security interests in real property, improvements thereto or equipment hereafter acquired (or, in the case of improvements, constructed) by the Borrower or any Subsidiary; provided, however, that (i) such security interests secure Indebtedness permitted by Section 6.01, (ii) such security interests are incurred, and the Indebtedness secured thereby is created, within 90 days

after such acquisition (or construction), (iii) the Indebtedness secured thereby does not exceed 85% of the lesser of the cost or the fair market value of such real property, improvements or equipment at the time of such acquisition (or construction) and (iv) such security interests do not apply to any other property or assets of the Borrower or any Subsidiary;

(i) Liens incurred in connection with Capital Lease Obligations permitted under Section 6.11;

(j) Liens incurred in connection with any Sale and Leaseback Transaction permitted under Section 6.03;

(k) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances that do not materially impair the current use or the value of the property subject thereto; and

(l) Liens securing Indebtedness permitted by Sections 6.01(i) or 6.01(j); provided however that such Liens apply only to property or assets of the Subsidiary that has incurred such Indebtedness and do not apply to the property or assets of the Borrower or any other Subsidiary.

SECTION 6.03. Sale and Leaseback Transactions. Enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property being sold or transferred (a "Sale and Leaseback Transaction"), except Sale and Leaseback Transactions entered into by the Borrower to finance the acquisition of equipment and other property so long as (a) the sum of (i) the Attributable Debt in respect of all such Sale and Leaseback Transactions, (ii) the aggregate principal amount of any purchase money Indebtedness incurred by the Borrower pursuant to Section 6.01(c) and (iii) the aggregate amount of all Capital Lease Obligations incurred by the Borrower and the Subsidiaries in accordance with Section 6.11 shall not exceed \$10,000,000 at any time outstanding and (b) such Sale and Leaseback Transaction occurs within 180 days after the acquisition of such equipment or other property.

SECTION 6.04. Investments, Loans and Advances. Purchase, hold or acquire any capital stock, evidences of Indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment or any other interest in, or give any Guarantee of Indebtedness of, any other Person, except:

(a) investments by the Borrower existing on the Effective Date in the capital stock of the Subsidiaries;

(b) in the case of the Borrower, Permitted Investments;

(c) in the case of the Borrower, the ESOP Loan and the ESOP Note;

(d) in the case of the Borrower, pledges and deposits permitted under Section 6.02(g);

(e) loans and advances to employees of the Borrower or any of its subsidiaries for travel, entertainment and relocation expenses in the ordinary course of business in an aggregate principal amount outstanding at any one time not to exceed \$5,000,000;

(f) loans and advances by the Borrower to any Subsidiary that is a Guarantor;

(g) investments, loans and advances by the Borrower to any Subsidiary that is not a Guarantor in an aggregate amount not exceeding \$4,000,000 with respect to all such Subsidiaries;

(h) purchases, leases and other Acquisitions permitted under Section 6.05(i); and

(i) Guarantees created under any Loan Document.

SECTION 6.05. Mergers, Consolidations, Sales of Assets and Acquisitions. Merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, assign, lease, sublease or otherwise dispose of (in one transaction or in a series of transactions) all or any substantial part of its assets (whether now owned or hereafter acquired) or any capital stock of any Subsidiary, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or any substantial part of the assets of any other Person; provided, however, that the foregoing shall not prohibit:

(a) sales of Permitted Investments for cash;

(b) sales, transfers and other dispositions of used or surplus equipment, vehicles and other assets in the ordinary course of business (to the extent that the Borrower shall have complied with the provisions of Section 2.12);

(c) Sale and Leaseback Transactions permitted by Section 6.03;

(d) sales of inventory in the ordinary course of business;

(e) sales, transfers and other dispositions by a Subsidiary to the Borrower or to any other Subsidiary that is a party to the Guarantee Agreement and all applicable Security Documents (which, it is understood, does not include TSM);

(f) the capital contributions described in Section 6.04(g);

(g) the sale or discount without recourse of accounts receivable arising in the ordinary course of business in connection with the compromise or collection thereof in the ordinary course of business;

(h) the merger of any Subsidiary with the Borrower or any other Subsidiary; provided, however, that (i) at the time of and immediately after giving effect to any such merger no Default or Event of Default shall have occurred, (ii) the Borrower shall be the surviving corporation of any merger involving the Borrower, (iii) no Foreign Subsidiary may merge with a Domestic Subsidiary unless the Domestic Subsidiary shall be the surviving corporation in such merger and (iv) no Subsidiary may merge with another Subsidiary unless the surviving corporation in such merger is a Guarantor; and

(i) other purchases, leases and other acquisitions of all or substantially all the assets of, or all the shares or other equity interests in, a Person or division or line of business ("Acquisitions") for which the aggregate consideration paid or payable by the Borrower and the Subsidiaries since the Closing Date does not exceed \$150,000,000 (including for this purpose the aggregate principal amount of Indebtedness that is assumed or acquired in connection with Acquisitions); provided, however, that (i) at the time of and immediately after giving effect to each such Acquisition, no Default or Event of Default shall have occurred and be continuing, (ii) such Acquisition is not the result of an unsolicited tender offer by the Borrower or the Subsidiaries, (iii) after giving effect to such Acquisition, there shall exist at least \$10,000,000 in unused Revolving Credit Commitments, (iv) after giving effect to such Acquisition, the Borrower and the Subsidiaries shall be in compliance, on a pro forma basis after giving effect to such Acquisition with the covenants contained in Sections 6.13 and 6.14 recomputed as at the last day of the most recently ended fiscal quarter of the Borrower as if such Acquisition had occurred on the first day of each relevant period for testing such compliance, and (v) prior to the consummation of any such Acquisition for aggregate consideration of at least \$15,000,000, the Borrower shall have delivered a certificate of a Responsible Officer of the Borrower to the Administrative Agent certifying as to the truth of the matters set forth in clauses (i), (ii), (iii) and (iv) above and setting forth reasonably detailed calculations with respect to the matters being certified to pursuant to clause (iv) above; provided further, that any single Acquisition or series of related Acquisitions made for consideration in excess of \$50,000,000 will require the approval of the Required Lenders.

SECTION 6.06. Dividends and Distributions. Declare or pay, directly or indirectly, any dividend or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any shares of its capital stock or directly or indirectly redeem, purchase, retire or otherwise acquire for value (or permit any Subsidiary to purchase or acquire) any shares of any class of its capital stock or set aside any amount for any such purpose; provided, however, that (a) any Subsidiary may declare and pay dividends or make other distributions to the Borrower or to a Guarantor; (b) the Borrower may repurchase or redeem Common Stock required to be repurchased or redeemed pursuant to the terms of the ESOP (and the applicable provisions of ERISA and the Code); (c) unless an Event of Default or any Default under paragraph (c) of Article VII shall have occurred and be continuing, the Borrower may repurchase its Common Stock; and (d) unless an Event of Default or any Default under paragraph (c) of Article VII shall have occurred and be continuing, the Borrower may declare and pay cash dividends in respect of its Common Stock (including Common Stock held by the ESOP); provided, further, that the aggregate amount of repurchases, redemptions and dividends (net of dividends on unallocated shares of Common Stock of the Borrower that are returned to the Borrower) made pursuant to clauses (c) and (d) of this Section 6.06 in any fiscal year shall not exceed the excess of (i) \$15,000,000 over (ii) the aggregate amount of prepayments of the Long-Term Pulse Seller Note, the Rockwell Senior Unsecured Credit Facility Loans and the Exchange Notes during such fiscal year made pursuant to Section 6.09(c).

SECTION 6.07. Transactions with Affiliates. Sell or transfer any property or assets to, or purchase or acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except that as long as no Default or Event of Default shall have occurred and be continuing, the Borrower or any Subsidiary may engage in any of the foregoing transactions in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties; provided, however, that this Section 6.07 shall not restrict (i) any transaction expressly permitted by Section 6.04 or 6.06 or (ii) any extension of the current financial advisory services agreement between the Borrower and Vestar Capital (provided that the annual fee payable pursuant thereto is not increased).

SECTION 6.08. Business of Borrower and Subsidiaries. Engage at any time in any business or business activity other than the business conducted by it as of the Closing Date (or, with respect to TSM, the Effective Date) and business activities reasonably incidental thereto.

SECTION 6.09. Limitations on Certain Debt Payments and Interest Payments. Optionally prepay, repurchase or redeem or otherwise defease or segregate funds with respect to any Indebtedness for borrowed money of the Borrower or any Subsidiary (including the Long-Term Pulse Seller Note, the Senior Unsecured Notes, the Rockwell Senior Unsecured Credit Facility Loans and the Exchange Notes), other than

(a) Indebtedness under this Agreement, (b) Rockwell Senior Unsecured Credit Facility Loans and Exchange Notes with the proceeds of Indebtedness incurred or created pursuant to Section 6.01(k) and (c) prepayments of the Long-Term Pulse Seller Note or the Rockwell Senior Unsecured Credit Facility Loans or the Exchange Notes (other than as contemplated by clause (b) above) in any fiscal year in an aggregate amount that does not exceed the excess of (i) \$15,000,000 over (ii) the aggregate amount of repurchases, redemptions and dividends (net of dividends on unallocated shares of Common Stock of the Borrower that are returned to the Borrower) made pursuant to clauses (c) and (d) of Section 6.06 during such fiscal year.

SECTION 6.10. Amendment of Certain Documents; Certain Agreements. (a) Permit any termination of, or any amendment or modification that, in the reasonable judgment of the Lenders, is adverse in any material respect to the Lenders to, (i) the Certificate of Incorporation of the Borrower, (ii) the By-laws of the Borrower, (iii) any Recapitalization Document (other than, subject to Section 9.04, a Loan Document) or (iv) any Rate Protection Agreement.

(b) Permit any amendment or modification to the terms of the Senior Unsecured Notes or the related indenture, the Long-Term Pulse Seller Note or the Pulse Subordination Agreement, or the Rockwell Senior Unsecured Credit Agreement, or the Exchange Notes or the related indenture that is adverse to the Lenders.

(c) Permit any Subsidiary to enter into any indenture, agreement or other instrument that restricts the ability of such Subsidiary to pay dividends or make distributions on its capital stock.

SECTION 6.11. Limitation on Capital Lease Obligations. Create or suffer to exist any Capital Lease Obligation, except Capital Lease Obligations incurred by the Borrower to finance the acquisition of equipment and other property, so long as (a) the sum of (i) the amount of all such Capital Lease Obligations, (ii) the aggregate principal amount of any purchase money Indebtedness incurred by the Borrower in accordance with Section 6.01(c) and (iii) the aggregate Attributable Debt in respect of all Sale and Leaseback Transactions entered into by the Borrower or any of its Subsidiaries in accordance with Section 6.03 shall not exceed \$10,000,000 at any time outstanding, (b) each Capital Lease Obligation at the time of its incurrence shall have an average life to maturity greater than the average life to maturity of the Term Loans outstanding at such time and (c) none of the related leases shall contain financial covenants.

SECTION 6.12. Capital Expenditures. Make or permit to be made any Capital Expenditures, except that the Borrower may make Capital Expenditures (a) during the period from June 30, 1998, through December 31, 1998, not in excess of \$20,000,000 and (b) during each fiscal year thereafter of up to the amount set forth in the table below opposite such fiscal year:

Year: -----	Amount: -----
1999	\$30,000,000
2000	\$35,000,000
2001	\$35,000,000
2002	\$40,000,000
2003	\$40,000,000

The amount of Capital Expenditures permitted pursuant to this Section 6.12 (i) in any fiscal year other than 1999, shall be increased by the total amount of unused permitted Capital Expenditures for the immediately preceding fiscal year (less an amount equal to any unused Capital Expenditures carried forward to such preceding year) and (ii) in fiscal year 1999 shall be increased by the total amount of unused permitted Capital Expenditures for the period from June 30, 1998, through December 31, 1998.

SECTION 6.13. Interest Expense Coverage Ratio. Permit the Interest Expense Coverage Ratio for any period of four consecutive fiscal quarters ending on the last day of the fiscal quarter indicated below (or, if shorter, the period from and including the Closing Date, to such last day) to be less than the ratio set forth opposite such date:

Fiscal Quarter Ending: -----	Ratio: -----
June 30, 1998	3.00 to 1.00
September 30, 1998	3.00 to 1.00
December 31, 1998	3.00 to 1.00
March 31, 1999	3.00 to 1.00
June 30, 1999	3.00 to 1.00
September 30, 1999	3.00 to 1.00
December 31, 1999	3.00 to 1.00
March 31, 2000	3.00 to 1.00
June 30, 2000	3.00 to 1.00
September 30, 2000	3.00 to 1.00
December 31, 2000	3.00 to 1.00
March 31, 2001	3.00 to 1.00
June 30, 2001	3.00 to 1.00
September 30, 2001	3.00 to 1.00
December 31, 2001	3.00 to 1.00
Thereafter	3.50 to 1.00

SECTION 6.14. Leverage Ratio. Permit the Leverage Ratio on the last day of the fiscal quarter indicated below to be in excess of the ratio set forth opposite such date:

Fiscal Quarter Ending: -----	Ratio: -----
June 30, 1998	4.00 to 1.00
September 30, 1998	4.25 to 1.00
December 31, 1998	4.25 to 1.00
March 31, 1999	4.00 to 1.00
June 30, 1999	4.00 to 1.00
September 30, 1999	4.00 to 1.00
December 31, 1999	4.00 to 1.00
March 31, 2000	3.75 to 1.00
June 30, 2000	3.75 to 1.00
September 30, 2000	3.75 to 1.00
December 31, 2000	3.75 to 1.00
March 31, 2001	3.50 to 1.00
June 30, 2001	3.50 to 1.00
September 30, 2001	3.50 to 1.00
December 31, 2001	3.50 to 1.00
March 31, 2002	3.00 to 1.00
June 30, 2002	3.00 to 1.00
September 30, 2002	3.00 to 1.00
December 31, 2002	3.00 to 1.00
Thereafter	2.50 to 1.00

SECTION 6.15. Asset Value of Guarantors. Notwithstanding anything to the contrary contained in this Agreement, the Borrower shall not (a) purchase or acquire any capital stock, evidences of Indebtedness or other securities of, (b) make any loans or advances to, (c) make any investment or acquire any other interest in, (d) sell, transfer, assign, lease, sublease or otherwise dispose of any of its assets (whether now owned or hereafter acquired) or the capital stock of any Subsidiary to, (e) permit the merger into or consolidation with any other Person by, (f) permit any other Person to merge into or consolidate with, or (g) permit the purchase, lease or other acquisition of any assets of any other Person, other than in the ordinary course of business, by, any Subsidiary, unless, at the time of and after giving effect to each such transaction referred to in clauses (a) through (g) above, the book value of all assets owned or held by Guarantors, on a consolidated basis, would not exceed \$250,000,000.

#### ARTICLE VII. EVENTS OF DEFAULT

In case of the happening of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in any Loan Document, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of any principal of any Loan or reimbursement with respect to any L/C Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for payment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan or L/C Disbursement or any Fee or any other amount (other than an amount referred to in (b) above) due under any Loan Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of five Business Days;

(d) default shall be made in the due observance or performance by the Borrower or any Subsidiary of any covenant, condition or agreement contained in Section 2.12(b), 2.12(c), 2.12(d), 5.01(a), 5.05, 5.08, 5.12 or in Article VI;

(e) default shall be made in the due observance or performance by the Borrower or any Subsidiary of any covenant, condition or agreement contained in any Loan Document (other than those specified in clause (b), (c) or (d) above) and such default shall continue unremedied for a period of 15 days after notice thereof from the Administrative Agent or any Lender to the Borrower;

(f) the Borrower or any Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness in a principal amount in excess of \$5,000,000, when and as the same shall become due and payable (after giving effect to any applicable grace period), or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice, the lapse of time or both) to cause, such Indebtedness to become due prior to its stated maturity;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) relief in respect of the Borrower or any Subsidiary, or of a substantial part of the property or assets of the Borrower or a Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of the property or assets of the Borrower or a Subsidiary or (iii) the winding-up or liquidation of the Borrower or any Subsidiary; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) the Borrower or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner (but within 60 days in any event), any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of the property or assets of the Borrower or any Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding,

(v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(i) one or more judgments for the payment of money in an aggregate amount in excess of \$5,000,000 (to the extent not covered by insurance) shall be rendered against the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 45 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the Borrower or any Subsidiary to enforce any such judgment;

(j) a Reportable Event or Reportable Events, or a failure to make a required installment or other payment (within the meaning of Section 412(n)(1) of the Code), shall have occurred with respect to any Plan or Plans that could reasonably be expected to result in liability of the Borrower to the PBGC or to a Plan and, within 30 days after the reporting of any such Reportable Event to the Administrative Agent or after the receipt by the Administrative Agent of the statement required pursuant to Section 5.06(b)(iii), the Administrative Agent shall have notified the Borrower in writing that (i) the Required Lenders have reasonably determined that, on the basis of such Reportable Event or Reportable Events or the failure to make a required payment, there are reasonable grounds (A) for the termination of such Plan or Plans by the PBGC, (B) for the appointment by the appropriate United States district court of a trustee to administer such Plan or Plans or (C) for the imposition of a lien in favor of a Plan and (ii) as a result thereof an Event of Default exists hereunder; or a trustee shall be appointed by a United States district court to administer any such Plan or Plans; or the PBGC shall institute proceedings to terminate any Plan or Plans or give notice of its intention to do so; and, in connection with any of the events set forth in this clause (j), the liability that the Borrower, its Subsidiaries and its ERISA Affiliates could be reasonably expected to incur would have a Material Adverse Effect;

(k) (i) the Borrower, any Subsidiary or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan (or otherwise shall know or have a reasonable basis to believe) that it has incurred Withdrawal Liability to such Multiemployer Plan, (ii) the Borrower, such Subsidiary or such ERISA Affiliate shall not have reasonable grounds for contesting such Withdrawal Liability or shall not in fact contest such Withdrawal Liability in a timely and appropriate manner and (iii) the amount of the Withdrawal Liability specified in such notice, when aggregated with all other amounts required to be paid to Multiemployer Plans in connection with unsatisfied Withdrawal Liabilities (determined as of the date or dates of such notification), could be reasonably expected to have a Material Adverse Effect;

(l) the Borrower, any Subsidiary or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan (or otherwise shall know or have a reasonable basis to believe) that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of the ERISA, if solely as a result of such reorganization or termination the aggregate annual contributions of the Borrower, the Subsidiaries and the ERISA Affiliates to all Multiemployer Plans that are then in reorganization or have been or are being terminated have been or will be increased over the amounts required to be contributed to such Multiemployer Plans for their most recently completed plan years by an amount that could be reasonably expected to have a Material Adverse Effect;

(m) there shall have occurred a Change in Control;

(n) any security interest purported to be created by any Security Document shall cease to be, or shall be asserted by the Borrower not to be, a valid, perfected, first priority (except as otherwise expressly provided in the Credit Agreement or such Security Document) security interest in the securities, assets or properties covered thereby (other than a security interest in securities, assets or properties having, in the aggregate, a fair market value not in excess of \$100,000), except to the extent that any such loss of perfection or priority results from the failure of the Collateral Agent to maintain possession of certificates representing securities pledged under the Pledge Agreement or to file UCC continuation statements unless the Borrower has been requested by the Collateral Agent in writing to file such statements in a timely fashion and fails to do so;

(o) any Loan Document shall not be for any reason, or shall be asserted by the Borrower not to be, in full force and effect and enforceable in all material respects in accordance with its terms;

(p) the Obligations and the guarantees thereof pursuant to the Guarantee Agreement shall cease to constitute, or shall be asserted by the Borrower or any Guarantor not to constitute, senior indebtedness under the subordination provisions of any subordinated Indebtedness of the Borrower or such subordination provisions shall be invalidated or otherwise cease to be a legal, valid and binding obligation of the parties thereto, enforceable in accordance with its terms; or

(q) any material provision of any Guarantee Agreement shall cease to be in full force and effect and enforceable in accordance with its terms for any reason whatsoever or any Guarantor shall contest or deny in writing the validity or enforceability of any of its obligations under the Guarantee Agreement, as applicable, or the Obligations shall cease to be entitled to the material benefits of any other Loan Document for any reason whatsoever;

then, and in every such event (other than an event with respect to the Borrower described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding; and in any event with respect to the Borrower described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.

#### ARTICLE VIII. THE AGENTS

In order to expedite the transactions contemplated by this Agreement, The Chase Manhattan Bank is hereby appointed to act as Administrative Agent and Collateral Agent on behalf of the Lenders and the Issuing Bank and BNY is hereby appointed as Documentation Agent on behalf of the Lenders (the Administrative Agent, the Collateral Agent and the Documentation Agent are referred to collectively as the "Agents"). Each of the Lenders and each assignee of any such Lender, hereby irrevocably authorizes the Agents to take such actions on behalf of such Lender or assignee or the Issuing Bank and to exercise such powers as are specifically delegated to the Agents by the terms and provisions hereof and of the other Loan Documents, together with such actions and powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized by the Lenders and the Issuing Bank, without hereby limiting any implied authority, (a) to receive on behalf of the Lenders and the Issuing Bank all payments of principal of and interest on the Loans, all payments in respect of L/C Disbursements and all other amounts due to the Lenders hereunder, and to distribute to each Lender or the Issuing Bank on the due date therefor its proper share of each payment so received; (b) to give notice on behalf of each of the Lenders to the Borrower of any Event of Default specified in this Agreement of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute promptly to each Lender copies of all notices, financial statements and other materials delivered by the Borrower pursuant to this Agreement as received by the Administrative Agent. Without limiting the generality of the foregoing, the

Agents are hereby expressly authorized to execute any and all documents (including releases) with respect to the Collateral and the rights of the Secured Parties with respect thereto, as contemplated by and in accordance with the provisions of this Agreement and the Security Documents.

Neither the Agents nor any of their respective directors, officers, employees or agents shall be liable as such for any action taken or omitted by any of them except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith, or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower or any other Loan Party of any of the terms, conditions, covenants or agreements contained in any Loan Document. The Agents shall not be responsible to the Lenders for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other Loan Documents or other instruments or agreements. The Agents shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Lenders (or, in the case of any matter requiring the approval of all the Lenders, in accordance with written instructions signed by all the Lenders) and, except as otherwise specifically provided herein, such instructions and any action or inaction pursuant thereto shall be binding on all the Lenders. Each Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any instrument or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper Person or Persons. Neither the Agents nor any of their respective directors, officers, employees or agents shall have any responsibility to the Borrower or any other Loan Party on account of the failure of or delay in performance or breach by any Lender or the Issuing Bank of any of its obligations hereunder or to any Lender or the Issuing Bank on account of the failure of or delay in performance or breach by any other Lender or the Issuing Bank or the Borrower or any other Loan Party of any of their respective obligations hereunder or under any other Loan Document or in connection herewith or therewith. Each of the Agents may execute any and all duties hereunder by or through agents or employees and shall be entitled to rely upon the advice of legal counsel selected by it with reasonable care with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Lenders hereby acknowledge that no Agent shall be under any duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement unless it shall be requested in writing to do so by the Required Lenders.

Subject to the appointment and acceptance of a successor Agent as provided below, any Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor, which successor shall be reasonably acceptable to the Borrower. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within

30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent which shall be a bank with an office in New York, New York, having a combined capital and surplus of at least \$500,000,000 or an Affiliate of any such bank and be reasonably acceptable to the Borrower. Upon the acceptance of any appointment as Agent hereunder by a successor bank, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent and the retiring Agent shall be discharged from its duties and obligations hereunder. After the Agent's resignation hereunder, the provisions of this Article and Section 9.05 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

With respect to the Loans made by it hereunder, each Agent in its individual capacity and not as Agent shall have the same rights and powers as any other Lender and may exercise the same as though it were not an Agent, and the Agents and their Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not an Agent.

Each Lender agrees (i) to reimburse the Agents, on demand, in the amount of its pro rata share (based on its Commitments hereunder) of any expenses incurred for the benefit of the Lenders by the Agents, including reasonable counsel fees and compensation of agents paid for services rendered on behalf of the Lenders, that shall not have been reimbursed by the Borrower and (ii) to indemnify and hold harmless each Agent and any of its directors, officers, employees or agents, on demand, in the amount of such pro rata share, from and against any and all liabilities, taxes (other than income taxes), obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against it in its capacity as Agent or any of them in any way relating to or arising out of this Agreement or any other Loan Document or any action taken or omitted by it or any of them under this Agreement or any other Loan Document, to the extent the same shall not have been reimbursed by the Borrower; provided, however, that no Lender shall be liable to an Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of such Agent or any of its directors, officers, employees or agents.

Each Lender acknowledges that it has, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or any other Loan Document, any related agreement or any document furnished hereunder or thereunder.

## ARTICLE IX. MISCELLANEOUS

SECTION 9.01. Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower, to it at 1001 Station Street, Wilmerding, PA 15148, Attention: Mr. W. Clayton Davis (Telecopy No. (412) 825-1333), with a copy to Robert J. Brooks at the same address (Telecopy No. (412) 825-1156);

(b) if to the Administrative Agent, to Chase Manhattan Bank Loan and Agency Services Group, One Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention of Doris Mesa (Telecopy No. (212) 552-5650), with a copy to The Chase Manhattan Bank, at 270 Park Avenue, New York 10017, Attention of Julie Long (Telecopy No. (212) 972-9854);

(c) if to the Issuing Bank, to it at Letter of Credit Department, 1201 Market Street, 8th Floor, Wilmington, Delaware 19801, Attention of Michael Handango (Telecopy No. (302) 428-3390 or (302) 984-4904); and

(d) if to a Lender, to it at its address (or telecopy number) set forth on Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have become a party hereto.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy or on the date five Business Days after dispatch, if mailed by certified or registered mail, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 9.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 9.01.

SECTION 9.02. Survival of Agreement. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Lenders and the Issuing Bank and shall survive the making by the Lenders of the Loans and the issuance of Letters of Credit by the Issuing Bank, regardless of any investigation made by the Lenders or the Issuing Bank or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not been terminated.

SECTION 9.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

SECTION 9.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Administrative Agent, the Issuing Bank or the Lenders that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

(b) Each Lender may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of its Commitments, the Loans and its L/C Exposure at the time owing to it); provided, however, that (i) except in the case of an assignment to a Lender or an Affiliate of a Lender, the Borrower (other than during the continuance of an Event of Default under Article VII (g) or (h)) and the Administrative Agent (and, in the case of any assignment of a Revolving Credit Commitment, the Issuing Bank and the Swingline Lender) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld or delayed), (ii) except in the case of an assignment to a Lender or an Affiliate of a Lender, the amount of the Commitments of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 (or, if less, the entire Commitment of the assigning Lender), (iii) the parties to each such assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500 (provided, however, that if such assignment is being effected pursuant to Section 2.13(c), 2.14(c) or 2.19(g) or paragraph (j) below, such recordation fee shall be paid to the Administrative Agent by the Borrower or the Issuing Bank, as applicable), and (iv) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire. Assignments of Commitments need not be pro rata. Upon acceptance and recording pursuant to paragraph (e) below, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement and (B) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.13, 2.15, 2.19 and 9.05, as well as to any interest and Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Term Loan Commitment and Revolving Credit Commitment, the outstanding balances of its Term Loans and Revolving Loans and its outstanding L/C Exposure, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of any Loan Party or the performance or observance by any Loan Party of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements, if any, delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Administrative Agent, the Collateral Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Administrative Agent and the Collateral Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent and the Collateral Agent, respectively, by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, principal amount of the Loans owing to and L/C Exposure of, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive and the Borrower, the Administrative Agent, the Issuing Bank, the Collateral Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank, the Collateral Agent and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower, the Swingline Lender, the Issuing Bank and the Administrative Agent to such assignment, the Administrative Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Lenders, the Issuing Bank and the Swingline Lender. No assignment shall be effective unless it has been recorded in the Register as provided in this paragraph (e).

(f) Each Lender may without the consent of the Borrower, the Swingline Lender, the Issuing Bank or the Administrative Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment, the Loans owing to it and its L/C Exposure); provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.13, 2.15 and 2.19 to the same extent as if they were Lenders and (iv) the Borrower, the Administrative Agent, the Issuing Bank and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrower relating to the Loans or L/C Disbursements and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans and the actual release of all or substantially all the Collateral under the Security Documents).

(g) Any Lender or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided, however, that, prior to any such disclosure of information designated by the Borrower as confidential, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information on terms no less restrictive than those applicable to the Lenders pursuant to Section 9.17.

(h) Any Lender may at any time assign all or any portion of its rights under this Agreement to a Federal Reserve Bank to secure extensions of credit by such Federal Reserve Bank to such Lender; provided, however, that no such assignment shall release a Lender from any of its obligations hereunder or substitute any such Bank for such Lender as a party hereto. In order to facilitate such an assignment to a Federal Reserve Bank, the Borrower shall, at the request of the assigning Lender, duly execute and deliver to the assigning Lender a promissory note or notes evidencing the Loans made to the Borrower by the assigning Lender hereunder.

(i) The Borrower shall not assign or delegate any of its rights or duties hereunder without the prior written consent of the Administrative Agent, the Issuing Bank and each Lender, and any attempted assignment without such consent shall be null and void.

(j) In the event that Standard & Poor's, Moody's and Thompson's BankWatch (or InsuranceWatch Ratings Service, in the case of Lenders that are insurance companies (or Best's Insurance Reports, if such insurance company is not rated by Insurance Watch Ratings Service)) shall, after the date that any Lender becomes a Lender, downgrade the long-term certificate of deposit ratings (or long-term senior debt ratings in the case of a Lender that is not a bank) of such Lender, and the resulting ratings shall be below BBB-, Baa3 and C (or BB, in the case of a Lender that is an insurance company (or B, in the case of an insurance company not rated by InsuranceWatch Ratings Service)), respectively, then the Issuing Bank shall have the right, but not the obligation, at its own expense, upon notice to such Lender and the Administrative Agent, to replace (or to request the Borrower to use its reasonable efforts to replace) such Lender with an assignee (in accordance with and subject to the restrictions contained in paragraph (b) above), and such Lender hereby agrees to transfer and assign without recourse (in accordance with and subject to the restrictions contained in paragraph (b) above) all its interests, rights and obligations in respect of its Revolving Credit Commitment to such assignee; provided, however, that (i) such assignee shall be reasonably acceptable to the Administrative Agent and the Borrower, (ii) no such assignment shall conflict with any law, rule and regulation or order of any Governmental Authority and (iii) the Issuing Bank or such assignee, as the case may be, shall pay to such Lender in immediately available funds on the date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Lender hereunder and all other amounts accrued for such Lender's account or owed to it hereunder.

SECTION 9.05. Expenses; Indemnity. (a) The Borrower agrees to pay all reasonable out-of-pocket expenses incurred by the Agents, the Issuing Bank and the Swingline Lender in connection with the preparation and administration of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby contemplated shall be consummated) or incurred by any Agent or Lender or the Issuing Bank in connection with the enforcement or protection of their rights in connection with

this Agreement and the other Loan Documents or in connection with the Loans made or Letters of Credit issued hereunder, including the fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Administrative Agent, the Collateral Agent and the Issuing Bank, and one local counsel in each applicable jurisdiction, and, in connection with any such enforcement or protection, the fees, charges and disbursements of any other counsel for any Agent or Lender or the Issuing Bank.

(b) The Borrower agrees to indemnify each Agent, each Lender and the Issuing Bank, each Affiliate of any of the foregoing Persons and each of their respective directors, officers, employees and agents (each such Person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of any claim, litigation, investigation or proceeding, whether or not any Indemnitee is a party thereto, relating to (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans or issuance of Letters of Credit, or (iii) any actual or alleged presence or Release of Hazardous Materials on any property owned or operated by the Borrower or any of the Subsidiaries, or any Environmental Claim related in any way to the Borrower or the Subsidiaries; provided, however, that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses have resulted from the gross negligence or wilful misconduct of such Indemnitee.

(c) The provisions of this Section 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank. All amounts due under this Section 9.05 shall be payable on written demand therefor.

SECTION 9.06. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement or such other Loan Document and although such obligations may be unmatured, and irrespective of whether such Lender is otherwise fully secured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender may have.

SECTION 9.07. APPLICABLE LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (OTHER THAN LETTERS OF CREDIT AND AS EXPRESSLY SET FORTH IN OTHER LOAN DOCUMENTS) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. EACH LETTER OF CREDIT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OR RULES DESIGNATED IN SUCH LETTER OF CREDIT, OR IF NO SUCH LAWS OR RULES ARE DESIGNATED, THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500 (THE "UNIFORM CUSTOMS") AND, AS TO MATTERS NOT GOVERNED BY THE UNIFORM CUSTOMS, THE LAWS OF THE STATE OF NEW YORK.

SECTION 9.08. Waivers; Amendment. (a) No failure or delay of any Agent, any Lender or the Issuing Bank in exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Agents, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders; provided, however, that no such agreement (i) shall (A) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date of, or date for the payment of any interest on, any Loan, or any date for reimbursement of an L/C Disbursement, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan or L/C Disbursement, without the prior written consent of each Lender affected thereby, (B) increase or extend the Commitments or decrease the Commitment Fees of any Lender without the prior written consent of such Lender, or (C) amend or modify the provisions of Section 2.16, the provisions of this Section 9.08, the definition of "Required Lenders", release all or any substantial part of the Collateral or release from its obligations under the Guarantee Agreement any Guarantor that owns a substantial part of the assets of the Borrower on a consolidated basis, in each case without the prior written consent of each Lender affected thereby, (ii) shall amend, modify

or otherwise affect the rights or duties of any Agent, the Issuing Bank or the Swingline Lender hereunder or under any other Loan Document without the prior written consent of such Agent, the Issuing Bank or the Swingline Lender, as applicable, (iii) shall change the allocation between June 1998 Term Loans and September 1998 Term Loans of any prepayment pursuant to Section 2.12 without the prior written consent of (A) Lenders holding June 1998 Term Loans representing more than 50% of the aggregate outstanding principal amount of the June 1998 Term Loans and (B) Lenders holding September 1998 Term Loans representing more than 50% of the aggregate outstanding principal amount of the September 1998 Term Loans or (iv) shall operate as a waiver of a Default or Event of Default, amendment or modification for the purposes of Section 4.01 without the prior written consent of Lenders holding more than 50% of the Revolving Credit Commitments.

SECTION 9.09. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan or participation in any L/C Disbursement, together with all fees, charges and other amounts that are treated as interest on such Loan or participation in such L/C Disbursement under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") that may be contracted for, charged, taken, received or reserved by the Lender holding such Loan or participation in accordance with applicable law, the rate of interest payable in respect of such Loan or participation hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan or participation but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or participations or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.10. Entire Agreement. This Agreement and the other Loan Documents constitute the entire contract between the parties relative to the subject matter hereof. Any previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement and the other Loan Documents. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

SECTION 9.11. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE

FORGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.11.

SECTION 9.12. Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9.13. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract, and shall become effective as provided in Section 9.03. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 9.14. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 9.15. Jurisdiction; Consent to Service of Process. (a) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any Lender may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Borrower or its properties in the courts of any jurisdiction.

(b) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

**SECTION 9.16. Mortgaged Property Casualty and Condemnation.**

(a) Notwithstanding any other provision of this Agreement or the Security Documents, the Collateral Agent is authorized, at its option (for the benefit of the Secured Parties), to collect and receive, to the extent payable to the Borrower or any other Loan Party, all insurance proceeds, damages, claims and rights of action under any insurance policies with respect to any casualty or other insured damage ("Casualty") to any portion of any Mortgaged Property (collectively, "Insurance Proceeds"), unless the amount of the related Insurance Proceeds is less than \$10,000,000 and an Event of Default shall not have occurred and be continuing. The Borrower agrees to notify the Collateral Agent and the Administrative Agent, in writing, promptly after the Borrower obtains notice or knowledge of any Casualty to a Mortgaged Property, which notice shall set forth a description of such Casualty and the Borrower's good faith estimate of the amount of related damages. The Borrower agrees, subject to the foregoing limitations, to endorse and transfer or cause to be endorsed or transferred any Insurance Proceeds received by it or any other Loan Party to the Collateral Agent.

(b) The Borrower will notify the Collateral Agent and the Administrative Agent immediately upon obtaining knowledge of the institution of any action or proceeding for the taking of any Mortgaged Property, or any part thereof or interest therein, for public or quasi-public use under the power of eminent domain, by reason of any public improvement or condemnation proceeding, or in any other manner (a "Condemnation"). No settlement or compromise of any claim in connection with any such action or proceeding shall be made without the consent of the Collateral Agent, which consent shall not be unreasonably withheld. The Collateral Agent is authorized, at its option (for the benefit of the Secured Parties), to collect and receive all proceeds of any such Condemnation (in each case, the "Condemnation Proceeds"). The Borrower agrees to execute or cause to be executed such further assignments of any Condemnation Proceeds as the Collateral Agent may reasonably require.

(c) In the event of a Condemnation of all or substantially all of any Mortgaged Property (which determination shall be made by the Collateral Agent in its reasonable discretion), unless the Borrower shall have notified the Collateral Agent in writing promptly after such Condemnation that it intends to replace the related Mortgaged Property (and no Default or Event of Default shall have occurred and be continuing at the time of such election), the Collateral Agent may deem such event to be a Prepayment Event, and shall apply the Condemnation Proceeds received as a result of such Condemnation (less the reasonable costs, if any, incurred by the Collateral Agent or the Borrower in the recovery

of such Condemnation Proceeds, including reasonable attorneys' fees, other charges and disbursements (the Collateral Agent having agreed to reimburse the Borrower from such Condemnation Proceeds such costs incurred by the Borrower)) to prepay obligations outstanding under this Agreement to the extent required under Section 2.12, with any remaining Condemnation Proceeds being returned to the Borrower. If the Borrower shall elect to replace a Mortgaged Property as contemplated above, (i) the replacement property shall be of utility comparable to that of the replaced Mortgaged Property and (ii) the insufficiency of any Condemnation Proceeds to defray the entire expense of the related location, acquisition and replacement of such replacement property shall in no way relieve the Borrower of its obligation to complete the construction or acquisition of any replacement property if the Borrower shall have made such election and shall have acquired the related real property. Any condemnation of substantially all of a Mortgaged Property is referred to herein as a "substantially all' Condemnation".

(d) In the event of any Condemnation of the Mortgaged Property, or any part thereof (other than a Condemnation described in paragraph (c) above and subject to the provisions of paragraph (f) below), the Collateral Agent shall apply the Condemnation Proceeds (to the extent it receives such proceeds), first, in the case of a partial Condemnation, to the repair or restoration of any integrated structure subject to such Condemnation and, second, shall apply the remainder of such Condemnation Proceeds (less the reasonable costs, if any, incurred by the Collateral Agent and the Borrower in the recovery of such Condemnation Proceeds, including reasonable attorneys' fees (the Collateral Agent having agreed to reimburse the Borrower from such Condemnation Proceeds such costs incurred by the Borrower)) to prepay obligations outstanding under this Agreement to the extent required under Section 2.12, with any remaining Condemnation Proceeds being returned to the Borrower.

(e) In the event of any Casualty of the improvements of any Mortgaged Property and so long as no Default or Event of Default has occurred and is continuing, the Borrower shall have the option to either:

(i) restore the Mortgaged Property to a condition substantially similar to its condition immediately prior to such Casualty and to invest the balance, if any, of any Insurance Proceeds, in equipment, vehicles or other assets used in the Borrower's principal lines of business within 180 days after the receipt thereof, provided, however, that the Borrower, pending such reinvestment, promptly deposits such excess Insurance Proceeds in a cash collateral account established with the Collateral Agent for the benefit of the Secured Parties, or

(ii) direct the Collateral Agent to apply the related Insurance Proceeds to prepay obligations outstanding under this Agreement to the extent required under Section 2.12, with any remaining Insurance Proceeds being returned to the Borrower.

It is understood that any excess Insurance Proceeds that are not reinvested in the Borrower's principal lines of business as contemplated above will be applied to prepay obligations outstanding under this Agreement to the extent required under Section 2.12.

If required to do so, the Borrower shall make the election contemplated by the immediately preceding paragraph by notifying the Collateral Agent promptly after the later to occur of (A) 30 days after the Borrower and its insurance carrier reach a final determination of the amount of any Insurance Proceeds and (B) 60 days after the occurrence of the Casualty. If the Borrower shall be required or shall elect to restore the Mortgaged Property, the insufficiency of any Insurance Proceeds or Condemnation Proceeds to defray the entire expense of such restoration shall in no way relieve the Borrower of such obligation to so restore if it is so required or once such election has been made. In the event the Borrower shall be required to restore or shall notify the Collateral Agent of its election to restore, the Borrower shall diligently and continuously prosecute the restoration of the Mortgaged Property to completion. In the circumstance where the Borrower shall be required to restore or shall so elect to restore and no Event of Default has occurred and is continuing the Borrower shall not be required to comply with the requirements of paragraph (f) below in connection with such restoration (except as required by clauses (f)(iii)(A) and (B)), so long as the cost of such restoration shall be less than \$500,000. In the event of a Casualty where the Borrower is required to make the election set forth above and the Borrower either shall fail to notify the Collateral Agent of its election within the period set forth above or shall elect not to restore the Mortgaged Property, the Collateral Agent shall (after being reimbursed for all reasonable costs of recovery of such Insurance Proceeds including reasonable attorneys' fees and after reimbursing the Borrower for all such reasonable costs incurred by the Borrower) apply such Insurance Proceeds to prepay obligations outstanding under this Agreement to the extent required under Section 2.12. In addition, upon such prepayment, the Borrower shall be obligated to place the remaining portion, if any, of the Mortgaged Property in a safe condition that is otherwise in compliance with the requirements of applicable Governmental Authorities and the provisions of this Agreement and the applicable Mortgage.

(f) Except as otherwise specifically provided in this Section 9.16, all Insurance Proceeds and all Condemnation Proceeds recovered by the Collateral Agent (i) are to be applied to the restoration of the applicable Mortgaged Property (or, if permitted in the event of a total or "substantially all" Condemnation as contemplated in paragraph (c) above, to the location, acquisition and construction of a replacement for the applicable Mortgaged Property) (less the reasonable cost, if any, to the Collateral Agent of such recovery and of paying out such proceeds, including reasonable (x) attorneys' fees, (y) other charges and (z) disbursements and costs allocable to inspecting the work (as defined below)), (ii) shall be applied by the Collateral Agent to the payment of the cost of restoring or replacing the Mortgaged Property so damaged, destroyed or taken or of the portion or portions of the Mortgaged Property not so taken (the "Work") and (iii) shall be paid out from time to time to the Borrower (as certified by the Borrower) as and to the extent the Work (or the location and acquisition of any replacement of any Mortgaged Property) progresses for the payment thereof, but subject to each of the following conditions:

(A) the Borrower must promptly commence the restoration process or the location, acquisition and replacement process (in the case of a total or "substantially all" Condemnation) in connection with the Mortgaged Property;

(B) upon completion thereof, the improvements shall (I) be in compliance with all requirements of applicable Governmental Authorities such that all representations or warranties of the Borrower relating to the compliance of such Mortgaged Property with applicable laws, rules or regulations in this Agreement or the Security Documents will be correct in all respects and (II) be at least equal in value and general utility to the improvements that were on such Mortgaged Property (or that were on the Mortgaged Property that has been replaced, if applicable) prior to the Casualty or Condemnation, and in the case of a Condemnation, subject to the affect of such Condemnation;

(C) there shall be no Default or Event of Default that has occurred and is continuing; and

(D) after commencing the Work, the Borrower shall continue to perform the Work diligently and in good faith to completion.

Upon completion of the Work and payment in full therefor, the Collateral Agent will disburse to the Borrower the amount of any Insurance Proceeds or Condemnation Proceeds then or thereafter in the hands of the Collateral Agent on account of the Casualty or Condemnation that necessitated such Work to be applied (x) to prepay obligations outstanding under this Agreement to the extent required under Section 2.12, with any excess being returned to the Borrower, or (y) to be reinvested in the Borrower's principal lines of business within 180 days after the receipt thereof; provided, however, that the Borrower, pending such reinvestment, promptly deposits such amounts in a cash collateral account established with the Collateral Agent for the benefit of the Secured Parties.

(g) Notwithstanding any other provisions of this Section 9.16, if the Borrower shall have elected to replace a Mortgaged Property in connection with a total or "substantially all" Condemnation as contemplated in paragraph (c) above, all Condemnation Proceeds held by the Collateral Agent in connection therewith shall be applied to prepay obligations outstanding under this Agreement to the extent required under Section 2.12 if (i) the Borrower notifies the Collateral Agent and the Administrative Agent that it does not intend to replace the related Mortgaged Property, (ii) an Officer of the Borrower shall not have notified the Administrative Agent and the Collateral Agent in writing that the Borrower has acquired or has entered into a binding contract to acquire land upon which it will construct the replacement property within six months after the related Condemnation or (iii) the Borrower shall have not notified the Administrative Agent and the Collateral Agent in writing that it has begun construction of the replacement structures within one year after the related Condemnation. Any funds not required to be applied in accordance with Section 2.12 shall be returned to the Borrower.

(h) Nothing in this Section 9.16 shall prevent the Collateral Agent from applying at any time all or any part of the Insurance Proceeds or Condemnation Proceeds to the curing of any Event of Default under this Agreement.

SECTION 9.17. Confidentiality. Except as otherwise provided in Section 9.04(g), each of the Agents, the Issuing Bank and each of the Lenders agrees to keep confidential (and (i) to cause its respective officers, directors and employees to keep confidential and (ii) to use its best efforts to cause its respective agents and representatives to keep confidential) the Information and all copies thereof, extracts therefrom and analyses or other materials based thereon, except that the Agents, the Issuing Bank or any Lender shall be permitted to disclose Information (a) to such of its respective officers, directors, employees, affiliates, agents and representatives as need to know such Information, (b) to the extent requested by any bank regulatory authority, (c) to the extent otherwise required by applicable laws and regulations or by any subpoena or similar legal process, (d) to prospective assignees (who agree to be bound by this Section 9.17), (e) in any legal proceedings between the Borrower and any Lender or (f) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Agreement or (ii) becomes available to the Agents, the Issuing Agent or any Lender on a non-confidential basis from a source other than the Borrower. For the purposes of this Section 9.17, the term "Information" shall mean all financial statements, certificates, reports, agreements and information (including all analyses, compilations and studies prepared by the Agents, the Issuing Bank or any Lender based on any of the foregoing) that are received by the Borrower and relate to the Borrower, any shareholder of the Borrower or any employee, customer or supplier of the Borrower, other than any of the foregoing that were available to the Agents, the Issuing Bank or any Lender on a nonconfidential basis prior to its disclosure thereto by the Borrower, and which are, in the case of Information provided after the Closing Date, clearly identified at the time of delivery as confidential. The provisions of this Section 9.17 shall remain operative and in full force and effect regardless of the expiration and term of this Agreement. Notwithstanding the foregoing, the parties hereto agree that the filing of any of the Loan Documents (to the extent necessary in the reasonably judgment of the Collateral Agent after consulting with the Borrower) properly to ensure the validity or priority of the Collateral Agent's lien under any Security Document or to the extent required by local counsel in order to render an opinion in form and substance reasonably satisfactory to the Collateral Agent in connection with such lien will not result in a violation of the foregoing confidentiality provisions.

SECTION 9.18. Currencies. (a) Each Loan hereunder shall be made in Dollars and each payment of principal of and interest on each Loan and each L/C Disbursement, and each payment of fees hereunder and of any other amount payable hereunder or under any other Loan Document shall be payable in Dollars, notwithstanding that certain Letters of Credit may be denominated in Alternative Currencies.

(b) The Borrower's obligations hereunder and under the other Loan Documents to make payments in Dollars shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any currency other than

Dollars except to the extent that such tender or recovery results in the effective receipt by the Administrative Agent, the Collateral Agent, the Issuing Bank or a Lender of the full amount of Dollars expressed to be payable to the Administrative Agent, the Collateral Agent, the Issuing Bank or such Lender under this Agreement or the other Loan Documents. If, for the purpose of obtaining or enforcing judgment against the Borrower or any Guarantor in any court or in any jurisdiction, it becomes necessary to convert into or from any currency other than Dollars (such other currency being hereinafter referred to as the "Judgment Currency") an amount due in the conversion shall be made at the Dollar Equivalent, in the case of any Alternative Currency and, in the case that such Judgment Currency is not an Alternative Currency, the rate of exchange (as quoted by the Administrative Agent or, if the Administrative Agent does not quote a rate of exchange on such currency, by a known dealer in such currency designated by the Administrative Agent) determined, in each case, as of the Business Day immediately preceding the day on which the judgment is given (such Business Day being hereinafter referred to as the "Judgment Currency Conversion Date").

(c) If there is a change in the rate of exchange prevailing between the Judgment Currency Conversion Date and the date of actual payment of the amount due, the Borrower covenants and agrees to pay, or cause to be paid, such additional amounts, if any (but in any event not a lesser amount), as may be necessary to ensure that the amount paid in the Judgment Currency, when converted at the rate of exchange prevailing on the date of payment, will produce the amount of Dollars that could have been purchased with the amount of Judgment Currency stipulated in the judgment or judicial award at the rate of exchange prevailing on the Judgment Currency Conversion Date.

(d) For purposes of determining the Dollar Equivalent or rate of exchange for this Section, such amounts shall include any premium and costs payable in connection with the purchase of Dollars.

SECTION 9.19. European Economic and Monetary Union. (a) Definitions. In this Section 9.19, Section 2.22 and in each other provision of this Agreement to which reference is made in this Section 9.19 expressly or impliedly, the following terms have the meanings given to them in this Section 9.19:

"commencement of the third stage of EMU" means the date of commencement of the third stage of EMU (at the date of this Agreement expected to be January 1, 1999) or the date on which circumstances arise which (in the opinion of the Administrative Agent) have substantially the same effect and result in substantially the same consequences as commencement of the third stage of EMU as contemplated by the Treaty on European Union.

"EMU" means economic and monetary union as contemplated in the Treaty on European Union.

"EMU legislation" means legislative measures of the European Council for the introduction of, changeover to or operation of a single or unified European currency (whether known as the euro or otherwise), being in part the implementation of the third stage of EMU;

"euro" means the single currency of participating member states of the European Union;

"euro unit" means the currency unit of the euro;

"national currency unit" means the unit of currency (other than a euro unit) of a participating member state;

"participating member state" means each state so described in any EMU legislation; and

"Treaty on European Union" means the Treaty of Rome of March 25, 1957, as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed at Maastricht on February 7, 1992, and came into force on November 1, 1993), as amended from time to time.

(b) Effectiveness of Provisions. The provisions of paragraphs (c) to (g) below (inclusive) shall be effective at and from the commencement of the third stage of EMU, provided, that if and to the extent that any such provision relates to any state (or the currency of such state) that is not a participating member state on the commencement of the third stage of EMU, such provision shall become effective in relation to such state (and the currency of such state) at and from the date on which such state becomes a participating member state.

(c) Redenomination and Alternative Currencies. Each obligation under this Agreement of a party to this Agreement which has been denominated in the national currency unit of a participating member state shall be redenominated into the euro unit in accordance with EMU legislation, provided, that if and to the extent that any EMU legislation provides that following the commencement of the third stage of EMU an amount denominated either in the euro or in the national currency unit of a participating member state and payable within that participating member state by crediting an account of the creditor can be paid by the debtor either in the euro unit or in that national currency unit, each party to this Agreement shall be entitled to pay or repay any such amount either in the euro unit or in such national currency unit.

(d) Business Days. With respect to any amount denominated or to be denominated in the euro or a national currency unit, any reference to a "Business Day" shall be construed as a reference to a day (other than a Saturday or Sunday) on which banks are generally open for business in

(i) London and New York City and

(ii) Frankfurt am Main, Germany (or such principal financial center or centers in such participating member state or states as the Administrative Agent may from time to time nominate for this purpose).

(e) Payments by the Administrative Agent Generally. With respect to the payment of any amount denominated in the euro or in a national currency unit, the Administrative Agent shall not be liable to the Borrower or any of the Lenders in any way whatsoever for any delay, or the consequences of any delay, in the crediting to any account of any amount required by this Agreement to be paid by the Administrative Agent if the Administrative Agent shall have taken all relevant steps to achieve, on the date required by this Agreement, the payment of such amount in immediately available, freely transferable, cleared funds (in the euro unit or, as the case may be, in a national currency unit) to the account with the bank in the principal financial center in the participating member state which the Borrower shall have specified for such purpose. In this paragraph (e), "all relevant steps" means all such steps as may be prescribed from time to time by the regulations or operating procedures of such clearing or settlement system as the Administrative Agent may from time to time determine for the purpose of clearing or settling payments of the euro.

(f) Rounding and Other Consequential Changes. Without prejudice and in addition to any method of conversion or rounding prescribed by any EMU legislation and without prejudice to the respective liabilities for indebtedness of the Borrower to the Lenders and the Lenders to the Borrower under or pursuant to this Agreement:

(i) each reference in this Agreement to a minimum amount (or an integral multiple thereof) in a national currency unit to be paid to or by the Administrative Agent shall be replaced by a reference to such reasonably comparable and convenient amount (or an integral multiple thereof) in the euro unit as the Administrative Agent may from time to time specify; and

(ii) except as expressly provided in this Section 9.19, each provision of this Agreement shall be subject to such reasonable changes of construction as the Administrative Agent may from time to time specify to be necessary or appropriate to reflect the introduction of or changeover to the euro in participating member states.

(g) Increased Costs. The Borrower shall from time to time, at the request of the Administrative Agent, pay to the Administrative Agent for the account of each Lender the amount of any cost or increased cost incurred by, or of any reduction in any amount payable to or in the effective return on its capital to, or of interest or other return foregone by, such Lender or any holding company of such Lender as a result of the introduction of, changeover to or operation of the euro in any participating member state.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

WESTINGHOUSE AIR BRAKE COMPANY,

by  
/s/ GARCIA ALVARO TUNON  
-----  
Name: Garcia Alvaro Tunon  
Title: Vice President

THE CHASE MANHATTAN BANK, individually  
and as Administrative Agent, Collateral  
Agent and Swingline Lender,

by  
/s/ JULI LONG  
-----  
Name: Juli Long  
Title: Vice President

CHASE MANHATTAN BANK DELAWARE, as  
Issuing Bank,

by  
/s/ MICHAEL P. HANDAGO  
-----  
Name: Michael P. Handago  
Title: Vice President

THE BANK OF NEW YORK,  
individually and as Documentation Agent,

by  
/s/ DEMETRIC A. DUCKETT  
-----  
Name: Demetric A. Duckett  
Title: Vice President

BANKBOSTON, N.A.,

by  
/s/ ROBERT J. JOYCE  
-----  
Name: Robert J. Joyce  
Title: Vice President

THE BANK OF NEW YORK,

by  
/s/ F.C.H. ASHBY  
-----  
Name: F.C.H. Ashby  
Title: Senior Manager Loan Operations

CREDIT AGRICOLE INDOSUEZ,

by  
/s/ DAVID BOUHL  
-----  
Name: David Bouhl  
Title: Head of Corporate Banking Chicago

by  
/s/ KATHERINE L. ABBOT  
-----  
Name: Katherine L. Abbot  
Title: First Vice President

CREDIT LYONNAIS, NEW YORK BRANCH,

by

/s/ VLADIMIR LEBUN

-----  
Name: Vladimir Lebus  
Title: First Vice President-Manager

CREDIT SUISSE FIRST BOSTON,

by

/s/ KRISTIN LEPRI

-----  
Name: Kristin Lepri  
Title: Associate

by

/s/ CHRIS T. HORGAN

-----  
Name: Chris T. Horgan  
Title: Vice President

THE DAI-ICHI KANGYO BANK, LTD.,

by

/s/ BERTRAM H. TANG

-----  
Name: Bertram H. Tang  
Title: Vice President

THE FIRST NATIONAL BANK OF CHICAGO,

by

/s/ LORI J. MCCARTHY

-----  
Name: Lori J. McCarthy  
Title: Vice President

FIRST UNION NATIONAL BANK,

by

/s/ JARED M. CANNON

-----  
Name: Jared M. Cannon  
Title: AVP

THE LONG-TERM CREDIT BANK OF JAPAN,  
LIMITED, NEW YORK BRANCH,

by

/s/ KOJI SASAYAMA  
-----

Name: Koji Sasayama  
Title: Deputy General Manager

MANUFACTURERS AND TRADERS TRUST COMPANY,

by

/s/ R. BUFORD SEARS  
-----

Name: R. Buford Sears  
Title: Administrative Vice President

MELLON BANK, N.A.,

by

/s/ MARK F. JOHNSON  
-----

Name: Mark F. Johnson  
Title: Assistant Vice President

BANK OF MONTREAL, CHICAGO BRANCH,

by

/s/ L.A. DURNING  
-----

Name: L.A. Durning  
Title: Portfolio Manager

NATIONAL BANK OF CANADA,

by

/s/ ERIC L. MOORE

-----  
Name: Eric L. Moore  
Title: Vice President

by

/s/ DONALD B. HADDAD

-----  
Name: Donald B. Haddad  
Title: Vice President

NATIONAL CITY BANK OF PENNSYLVANIA,

by

/s/ VINCENT J. DELIE, JR.

-----  
Name: Vincent J. Delie, Jr.  
Title: Vice President & Regional Manager

THE BANK OF NOVA SCOTIA,

by

/s/ F. C. H. ASHBY

-----  
Name: F. C. H. Ashby  
Title: Senior Manager Loan Operations

PNC BANK NATIONAL ASSOCIATION,

by

/s/ TARA M. GENTILE

-----  
Name: Tara M. Gentile  
Title: Corporate Banking Officer

THE SUMITOMO TRUST & BANKING CO., LTD.,  
NEW YORK BRANCH,

by

/s/ PAUL P. MALECKI  
-----

Name: Paul P. Malecki  
Title: Vice President

SUNTRUST BANK, CENTRAL FLORIDA, N.A.,

by

/s/ RHONDA S. SMITH  
-----

Name: Rhonda S. Smith  
Title: Assistant Vice President

BANK OF TOKYO-MITSUBISHI TRUST COMPANY,

by

/s/ PAUL P. MALECKI  
-----

Name: Paul P. Malecki  
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION,

by

/s/ GREG WILSON  
-----

Name: Greg Wilson  
Title: Commercial Banking Officer

## EXHIBIT 10.15

## WESTINGHOUSE AIR BRAKE COMPANY

1995 STOCK INCENTIVE PLAN  
(AS AMENDED THROUGH MAY 26, 1998)

The purposes of the 1995 Stock Incentive Plan (as amended, the "Plan") are to encourage eligible employees of Westinghouse Air Brake Company (the "Corporation") and its Subsidiaries to increase their efforts to make the Corporation and each Subsidiary more successful, to provide an additional inducement for such employees to remain with the Corporation or a Subsidiary, to reward such employees by providing an opportunity to acquire shares of the Common Stock, par value \$0.01 per share, of the Corporation (the "Common Stock") on favorable terms and to provide a means through which the Corporation may attract able persons to enter the employ of the Corporation or one of its Subsidiaries. For the purposes of the Plan, the term "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Corporation, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing at least fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

SECTION 1  
ADMINISTRATION

The Plan shall be administered by a Committee (the "Committee") appointed by the Board of Directors of the Corporation (the "Board") and consisting of not less than two members of the Board, each of whom at the time of appointment to the Committee and at all times during service as a member of the Committee shall be (i) "Non-Employee Directors" as then defined under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), or any successor Rule and (ii) if so determined by the Board, an "outside director" under Section 162(m)(4)(C) of the Internal Revenue Code of 1986 (the "Code"), or any successor provision.

The Committee shall interpret the Plan and prescribe such rules, regulations and procedures in connection with the operation of the Plan as it shall deem to be necessary and advisable for the administration of the Plan consistent with the purposes of the Plan. All questions of interpretation and application of the Plan, or as to grants or awards under the Plan, shall be subject to the determination of the Committee which shall be final and binding.

The Committee shall keep records of action taken. A majority of the Committee shall constitute a quorum at any meeting, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all the members of the Committee, shall be the acts of the Committee.

SECTION 2  
ELIGIBILITY

Those key employees of the Corporation or any Subsidiary (including, but not limited to, covered employees as defined in Section 162(m)(3) of the Code, or any successor provision) who share responsibility for the management, growth or protection of the business of the Corporation or any Subsidiary shall be eligible to be granted stock options (with or without cash payment rights) and to receive awards of restricted shares and performance units as described herein.

Subject to the provisions of the Plan, the Committee shall have full and final authority, in its discretion, to grant stock options (with or without cash payment rights) and to award restricted shares and performance units as described herein and to determine the employees to whom any such grant or award shall be made and the number of shares to be covered thereby. In determining the eligibility of any employee, as well as in determining the number of shares or units covered by each grant or award and

whether cash payment rights shall be granted in conjunction with a stock option, the Committee shall consider the position and the responsibilities of the employee being considered, the nature and value to the Corporation or a Subsidiary of his or her services, his or her present and/or potential contribution to the success of the Corporation or a Subsidiary and such other factors as the Committee may deem relevant.

SECTION 3  
SHARES AVAILABLE UNDER THE PLAN

The aggregate number of shares of the Common Stock that may be issued and as to which grants or awards may be made under the Plan is 3,100,000 shares, subject to adjustment and substitution as set forth in Section 7. If any stock option granted under the Plan is canceled by mutual consent or terminates or expires for any reason without having been exercised in full, the number of shares subject thereto shall again be available for purposes of the Plan. If shares of Common Stock are forfeited to the Corporation pursuant to the restrictions applicable to restricted shares awarded under the Plan, the shares so forfeited shall again be available for purposes of the Plan. To the extent any award of performance units is not earned or is paid in cash rather than shares, the number of shares covered thereby shall again be available for purposes of the Plan.

The shares which may be issued under the Plan may be either authorized but unissued shares or treasury shares or partly each, as shall be determined from time to time by the Board.

SECTION 4  
GRANT OF STOCK OPTIONS  
AND CASH PAYMENT RIGHTS AND AWARD OF  
RESTRICTED SHARES AND PERFORMANCE UNITS

The Committee shall have authority, in its discretion, (i) to grant "incentive stock options" pursuant to Section 422 of the Code, to grant "nonstatutory stock options" (i.e., stock options which do not qualify under Sections 422 or 423 of the Code) or to grant both types of stock options (but not in tandem), (ii) to award restricted shares and (iii) to award performance units, all as provided herein. The Committee also shall have the authority, in its discretion, to grant cash payment rights in conjunction with nonstatutory stock options with the effect provided in Section 5(D). Cash payment rights may not be granted in conjunction with incentive stock options. Cash payment rights granted in conjunction with a nonstatutory stock option may be granted either at the time the stock option is granted or at any time thereafter during the term of the stock option.

During the duration of the Plan, the maximum number of shares as to which stock options may be granted and as to which shares may be awarded under the Plan to any one employee is 800,000 shares, subject to adjustment and substitution as set forth in Section 7. For the purposes of this limitation, any adjustment or substitution made pursuant to Section 7 with respect to the maximum number of shares set forth in the preceding sentence shall also be made with respect to any shares subject to stock options or share awards previously granted under the Plan to such employee.

Notwithstanding any other provision contained in the Plan or in any agreement referred to in Section 5(H), but subject to the possible exercise of the Committee's discretion contemplated in the last sentence of this paragraph, the aggregate fair market value, determined as provided in Section 5(I) on the date of grant, of the shares with respect to which incentive stock options are exercisable for the first time by an employee during any calendar year under all plans of the corporation employing such employee, any parent or subsidiary corporation of such corporation and any predecessor corporation of any such corporation shall not exceed \$100,000. If the date on which one or more of such incentive stock options could first be exercised would be accelerated pursuant to any provision of the Plan or any stock option agreement, and the acceleration of such exercise date would result in a violation of the limitation set forth in the preceding sentence, then, notwithstanding any such provision, but subject to the provisions of the

next succeeding sentence, the exercise dates of such incentive stock options shall be accelerated only to the date or dates, if any, that do not result in a violation of such limitation and, in such event, the exercise dates of the incentive stock options with the lowest option prices shall be accelerated to the earliest such dates. The Committee may, in its discretion, authorize the acceleration of the exercise date of one or more incentive stock options even if such acceleration would violate the \$100,000 limitation set forth in the first sentence of this paragraph and even if such incentive stock options are thereby converted in whole or in part to nonstatutory stock options.

SECTION 5  
TERMS AND CONDITIONS OF  
STOCK OPTIONS AND CASH PAYMENT RIGHTS

Stock options and cash payment rights granted under the Plan shall be subject to the following terms and conditions:

(A) The purchase price at which each stock option may be exercised (the "option price") shall be such price as the Committee, in its discretion, shall determine, but shall not be less than one hundred percent (100%) of the fair market value per share of the Common Stock covered by the stock option on the date of grant, except that in the case of an incentive stock option granted to an employee who, immediately prior to such grant, owns stock possessing more than (10%) of the total combined voting power of all classes of stock of the Corporation or any Subsidiary (a "Ten Percent Employee"), the option price shall be one hundred ten percent (110%) of such fair market value on the date of grant; provided, however, that with respect to employees who become employees of the Corporation or any Subsidiary as a result of the acquisition by the Corporation or any Subsidiary of the stock or assets of another entity or business (an "Acquisition"), and who are not deemed to be reporting persons of the Corporation or any Subsidiary for purposes of Section 16(b) of the 1934 Act, the option price with respect to nonstatutory stock options granted to such persons within 12 months of such Acquisition shall be such price as the Committee, in its discretion, shall determine, which may be less than the fair market value per share of the Common Stock on the date of grant. For purposes of this Section 5(A), the fair market value of the Common Stock shall be determined as provided in Section 5(I); provided, however, that notwithstanding any other provision of the Plan, if the IPO (as defined in Section 5(I)) does not occur on or before December 31, 1995, the fair market value of the Common Stock for purposes of any nonstatutory stock options granted under the Plan in calendar year 1995 shall be \$15.00 per share. For purposes of this Section 5(A), an individual (i) shall be considered as owning not only shares of stock owned individually but also all shares of stock that are at the time owned, directly or indirectly, by or for the spouse, ancestors, lineal descendants and brothers and sisters (whether by the whole or half blood) of such individual and (ii) shall be considered as owning proportionately any shares owned, directly or indirectly, by or for any corporation, partnership, estate or trust in which such individual is a stockholder, partner or beneficiary.

(B) The option price for each stock option shall be payable in cash in United States dollars (including check, bank draft or money order); provided, however, that in lieu of cash the person exercising the stock option may (if authorized by the Committee at the time of grant in the case of an incentive stock option, or at any time in the case of a nonstatutory stock option) pay the option price in whole or in part by delivering to the Corporation shares of the Common Stock having a fair market value on the date of exercise of the stock option, determined as provided in Section 5(I), equal to the option price for the shares being purchased, except that (i) any portion of the option price representing a fraction of a share shall in any event be paid in cash and (ii) no shares of the Common Stock which have been held for less than six months may be delivered in payment of the option price of a stock option. Delivery of shares, if authorized, may also be accomplished through the effective transfer to the Corporation of shares held by a broker or other agent. The Corporation will also cooperate with any person exercising a stock option who participates in a cashless exercise program of a broker or other agent under which all or part of the shares received upon exercise of the stock option are sold through the broker or other agent or under which the broker or other agent makes a loan to such person. Notwithstanding the foregoing,

unless the Committee, in its discretion, shall otherwise determine at the time of grant in the case of an incentive stock option, or at any time in the case of a nonstatutory stock option, the exercise of the stock option shall not be deemed to occur and no shares of Common Stock will be issued by the Corporation upon exercise of the stock option until the Corporation has received payment of the option price in full. The date of exercise of a stock option shall be determined under procedures established by the Committee, and as of the date of exercise the person exercising the stock option shall be considered for all purposes to be the owner of the shares with respect to which the stock option has been exercised. Payment of the option price with shares shall not increase the number of shares of the Common Stock which may be issued under the Plan as provided in Section 3.

(C) Unless the Committee, in its discretion, shall otherwise determine, stock options shall be exercisable by a grantee during employment commencing on the date of grant. No stock option shall be exercisable after the expiration of ten years (five years in the case of an incentive stock option granted to a Ten Percent Employee) from the date of grant. Unless the Committee, in its discretion, shall otherwise determine, a stock option to the extent exercisable at any time may be exercised in whole or in part.

(D) Cash payment rights granted in conjunction with a nonstatutory stock option shall entitle the person who is entitled to exercise the stock option, upon exercise of the stock option or any portion thereof, to receive cash from the Corporation (in addition to the shares to be received upon exercise of the stock option) equal to such percentage as the Committee, in its discretion, shall determine not greater than one hundred percent (100%) of the excess of the fair market value of a share of the Common Stock on the date of exercise of the stock option over the option price per share of the stock option times the number of shares covered by the stock option, or portion thereof, which is exercised. Payment of the cash provided for in this Section 5(D) shall be made by the Corporation as soon as practicable after the time the amount payable is determined. For purposes of this Section 5(D), the fair market value of the Common Stock shall be determined as provided in Section 5(I).

(E) (i) No stock option shall be transferable by the grantee otherwise than by Will, or if the grantee dies intestate, by the laws of descent and distribution of the state of domicile of the grantee at the time of death and (ii) all stock options shall be exercisable during the lifetime of the grantee only by the grantee.

(F) Subject to the provisions of Section 4 in the case of incentive stock options, unless the Committee, in its discretion, shall otherwise determine:

(i) If the employment of a grantee who is not disabled within the meaning of Section 422(c)(6) of the Code (a "Disabled Grantee") is voluntarily terminated with the consent of the Corporation or a Subsidiary or a grantee retires under any retirement plan of the Corporation or a Subsidiary, any then outstanding incentive stock option held by such grantee shall be exercisable by the grantee (but only to the extent exercisable by the grantee immediately prior to the termination of employment) at any time prior to the expiration date of such incentive stock option or within three months after the date of termination of employment, whichever is the shorter period;

(ii) If the employment of a grantee who is not a Disabled Grantee is voluntarily terminated with the consent of the Corporation or a Subsidiary or a grantee retires under any retirement plan of the Corporation or a Subsidiary, any then outstanding nonstatutory stock option held by such grantee shall be exercisable by the grantee (but only to the extent exercisable by the grantee immediately prior to the termination of employment) at any time prior to the expiration date of such nonstatutory stock option or within one year after the date of termination of employment, whichever is the shorter period;

(iii) If the employment of a grantee who is a Disabled Grantee is voluntarily terminated with the consent of the Corporation or a Subsidiary, any then outstanding stock option held by such grantee shall be exercisable by the grantee in full (whether or not so exercisable by the grantee immediately prior to the termination of employment) by the grantee at any time prior to the expiration date of such stock option or within one year after the date of termination of employment, whichever is the shorter period;

(iv) Following the death of a grantee during employment, any outstanding stock option held by the grantee at the time of death shall be exercisable in full (whether or not so exercisable by the grantee immediately prior to the death of the grantee) by the person entitled to do so under the Will of the grantee, or, if the grantee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the grantee at any time prior to the expiration date of such stock option or within one year after the date of death of the grantee, whichever is the shorter period;

(v) Following the death of a grantee after termination of employment during a period when a stock option is exercisable, the stock option shall be exercisable by such person entitled to do so under the Will of the grantee or by such legal representative (but only to the extent the stock option was exercisable by the grantee immediately prior to the death of the grantee) at any time prior to the expiration date of such stock option or within one year after the date of death, whichever is the shorter period;

(vi) Unless the exercise period of a stock option following termination of employment has been extended as provided in Section 8(C), if the employment of a grantee terminates for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the Corporation or a Subsidiary or death, all outstanding stock options held by the grantee at the time of such termination of employment shall automatically terminate.

Whether termination of employment is a voluntary termination with the consent of the Corporation or a Subsidiary shall be determined, in its discretion, by the Committee and any such determination by the Committee shall be final and binding.

(G) If a grantee of a stock option (i) engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment) which is in competition with the Corporation or any of its Subsidiaries (provided, however, that this clause shall not apply if Section 8(C) applies following termination of employment), (ii) induces or attempts to induce any customer, supplier, licensee or other individual, corporation or other business organization having a business relationship with the Corporation or any of its Subsidiaries to cease doing business with the Corporation or any of its Subsidiaries or in any way interferes with the relationship between any such customer, supplier, licensee or other person and the Corporation or any of its Subsidiaries or (iii) solicits any employee of the Corporation or any of its Subsidiaries to leave the employment thereof or in any way interferes with the relationship of such employee with the Corporation or any of its Subsidiaries, the Committee, in its discretion, may immediately terminate all outstanding stock options held by the grantee. Whether a grantee has engaged in any of the activities referred to in the preceding sentence which would cause the outstanding stock options to be terminated shall be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

(H) All stock options and cash payment rights shall be confirmed by an agreement which shall be executed on behalf of the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President and by the grantee. The agreement confirming a stock option shall specify whether the stock option is an incentive stock option or a nonstatutory stock option. The provisions of such agreements need not be identical.

(I) Fair market value of the Common Stock shall be the mean between the following prices, as applicable, for the date as of which fair market value is to be determined as quoted in The Wall Street Journal (or in such other reliable publication as the Committee, in its discretion, may determine to rely upon): (i) if the Common Stock is listed on the New York Stock Exchange, the highest and lowest sales prices per share of the Common Stock as quoted in the NYSE-Composite Transactions listing for such date, (ii) if the Common Stock is not listed on such exchange the highest and lowest sales prices per share of Common Stock for such date on (or on any composite index including) the principal United States securities exchange registered under the 1934 Act on which the Common Stock is listed or (iii) if the Common Stock is not listed on any such exchange, the highest and lowest sales prices per share of the Common Stock for such date on the National Association of Securities Dealers Automated Quotations System or any successor system then in use ("NASDAQ"); provided, however, the fair market value of the Common Stock for the date of the initial public offering of the Common Stock (the "IPO") shall be the IPO price of the Common Stock. If there are no such sale price quotations for the date as of which fair market value is to be determined but there are such sale price quotations within a reasonable period both before and after such date, then fair market value shall be determined by taking a weighted average of the means between the highest and lowest sales prices per share of the Common Stock as so quoted on the nearest date before and the nearest date after the date as of which fair market value is to be determined. The average should be weighted inversely by the respective numbers of trading days between the selling dates and the date as of which fair market value is to be determined. If there are no such sale price quotations on or within a reasonable period both before and after the date as of which fair market value is to be determined, then fair market value of the Common Stock shall be the mean between the bona fide bid and asked prices per share of Common Stock as so quoted for such date on NASDAQ, or if none, the weighted average of the means between such bona fide bid and asked prices on the nearest trading date before and the nearest trading date after the date as of which fair market value is to be determined, if both such dates are within a reasonable period. The average is to be determined in the manner described above in this Section 5(I). If the fair market value of the Common Stock cannot be determined on any basis previously set forth in this Section 5(I) for the date as of which fair market value is to be determined, the Committee shall in good faith determine the fair market value of the Common Stock on such date. Fair market value shall be determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

(J) The obligation of the Corporation to issue shares of the Common Stock under the Plan shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such shares, if deemed necessary or appropriate by counsel for the Corporation, (ii) the condition that the shares shall have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange, if any, on which the Common Stock may then be listed and (iii) all other applicable laws, regulations, rules and orders which may then be in effect.

Subject to the foregoing provisions of this Section 5 and the other provisions of the Plan, stock options and cash payment rights granted under the Plan shall be subject to such restrictions and other terms and conditions, if any, as shall be determined, in its discretion, by the Committee and set forth in the agreement referred to in Section 5(H), or an amendment thereto.

SECTION 6  
RESTRICTED SHARES AND PERFORMANCE UNITS

(A) RESTRICTED SHARES

Awards of restricted shares shall be confirmed by a written agreement in the form prescribed by the Committee in its discretion, which shall set forth the number of shares of the Common Stock awarded, restrictions imposed thereon (including, without limitation, restrictions on the right of the grantee to sell, assign, transfer or encumber such shares (except as provided below) while such shares are subject to other restrictions imposed under this Section 6(A)), the duration of such restrictions, events (which may, in the discretion of the Committee, include termination of employment and/or performance-based events) the occurrence of which would cause a forfeiture of the restricted shares and such other terms and conditions as shall be determined, in its discretion, by the Committee. The agreement shall be executed on behalf of the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President and by the grantee. The provisions of such agreements need not be identical. Awards of restricted shares shall be effective on the date determined, in its discretion, by the Committee.

Following the award of restricted shares and prior to the lapse or termination of the applicable restrictions, share certificates for the restricted shares shall be issued in the name of the grantee and deposited with the Corporation in escrow together with related stock powers signed by the grantee. Except as provided in Section 7, the Committee, in its discretion, may determine that dividends and other distributions on the shares held in escrow shall not be paid to the grantee until the lapse or termination of the applicable restrictions. Unless otherwise provided, in its discretion, by the Committee, any such dividends and other distributions shall not bear interest. Upon the lapse or termination of the applicable restrictions (and not before such time), the grantee shall receive the share certificates for the restricted shares (subject to the provisions of Section 10) and unpaid dividends, if any. From the date the award of restricted shares is effective, the grantee shall be a stockholder with respect to all the shares represented by the share certificates and shall have all the rights of a stockholder with respect to all the restricted shares, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares, subject only to the preceding provisions of this paragraph and the other restrictions imposed by the Committee. If a grantee of restricted shares (i) engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment) which is in competition with the Corporation or any of its Subsidiaries (provided, however, that this clause shall not apply if Section 8(D) applies), (ii) induces or attempts to induce any customer, supplier, licensee or other individual, corporation or other business organization having a business relationship with the Corporation or any of its Subsidiaries to cease doing business with the Corporation or any of its Subsidiaries or in any way interferes with the relationship between any such customer, supplier, licensee or other person and the Corporation or any of its Subsidiaries or (iii) solicits any employee of the Corporation or any of its Subsidiaries to leave the employment thereof or in any way interferes with the relationship of such employee with the Corporation or any of its Subsidiaries, the Committee may immediately declare forfeited all restricted shares held by the grantee as to which the restrictions have not yet lapsed. Whether a grantee has engaged in any of the activities referred to in the preceding sentence which would cause the restricted shares to be forfeited shall be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

Neither this Section 6(A) nor any other provision of the Plan shall preclude a grantee from transferring or assigning restricted shares to (i) the trustee of a trust that is revocable by such grantee alone, both at the time of the transfer or assignment and at all times thereafter prior to such grantee's death or (ii) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of restricted shares from such trustee to any person other than such grantee shall be permitted only to the extent approved in advance by the Committee in writing, and restricted shares held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable agreement as if such trustee were a party to such agreement.

## (B) PERFORMANCE UNITS

The Committee may award performance units which shall be earned by an awardee based on the level of performance over a specified period of time by the Corporation, a Subsidiary or Subsidiaries, any branch, department or other portion thereof or the awardee individually, as determined by the Committee. For the purposes of the grant of performance units, the following definitions shall apply:

(i) "Performance unit" shall mean an award, expressed in dollars or shares of Common Stock, granted to an awardee with respect to a Performance Period. Awards expressed in dollars may be established as fixed dollar amounts, as a percentage of salary, as a percentage of a pool based on earnings of the Corporation, a Subsidiary or Subsidiaries or any branch, department or other portion thereof or in any other manner determined by the Committee in its discretion, provided that the amount thereof shall be capable of being determined as a fixed dollar amount as of the close of the Performance Period.

(ii) "Performance Period" shall mean an accounting period of the Corporation or a Subsidiary of not less than one year, as determined by the Committee in its discretion.

(iii) "Performance Target" shall mean that level of performance established by the Committee which must be met in order for the performance unit to be fully earned. The Performance Target may be expressed in terms of earnings per share, return on assets, asset growth, ratio of capital to assets or such other level or levels of accomplishment by the Corporation, a Subsidiary or Subsidiaries, any division, branch, department or other portion thereof or the awardee individually as may be established or revised from time to time by the Committee.

(iv) "Minimum Target" shall mean a minimal level of performance established by the Committee which must be met before any part of the performance unit is earned. The Minimum Target may be the same as or less than the Performance Target in the discretion of the Committee.

(v) "Performance shares" shall mean shares of Common Stock issued in payment of earned performance units.

An awardee shall earn the performance unit in full by meeting the Performance Target for the Performance Period. If the Minimum Target has not been attained at the end of the Performance Period, no part of the performance unit shall have been earned by the awardee. If the Minimum Target is attained but the Performance Target is not attained, the portion of the performance unit earned by the awardee shall be determined on the basis of a formula established by the Committee.

At any time prior to the end of a Performance Period, the Committee may adjust downward (but not upward) the Performance Target and/or Minimum Target as a result of major events unforeseen at the time of the award, such as changes in the economy, in the industry or laws affecting the operations of the Corporation or a Subsidiary, or any division, branch, department or other portion thereof, or any other event the Committee determines would have a significant impact upon the probability of attaining the previously established Performance Target.

Payment of earned performance units shall be made to awardees following the close of the Performance Period as soon as practicable after the time the amount payable is determined by the Committee. Payment in respect of earned performance units, whether expressed in dollars or shares, may be made in cash, in shares of Common Stock, or partly in cash and partly in shares of Common Stock, as determined by the Committee at the time of payment. For this purpose, performance units expressed in dollars shall be converted to shares, and performance units expressed in shares shall be converted to

dollars, based on the fair market value of the Common Stock, determined as provided in Section 5(I), as of the date the amount payable is determined by the Committee. The Committee, in its discretion, may determine that awardees shall also be entitled to any dividends or other distributions that would have been paid on earned performance shares had the shares been outstanding during the period from the award to the payment of the performance shares. Unless otherwise provided, in its discretion, by the Committee, any such dividends or other distributions shall not bear interest.

Unless otherwise provided in the agreement confirming the award of the performance units, if prior to the close of a Performance Period, the employment of an awardee of performance units is voluntarily terminated with the consent of the Corporation or a Subsidiary, the grantee retires under any retirement plan of the Corporation or a Subsidiary or the grantee dies during employment, the Committee in its discretion may determine to pay to the grantee all or part of the performance unit based upon the extent to which the Committee determines the Performance Target or Minimum Target has been achieved as of the date of termination of employment, retirement or death, the period of time remaining until the end of the Performance Period and/or such other factors as the Committee may deem relevant. If the Committee, in its discretion, determines that all or any part of the performance unit shall be paid, payment shall be made to the awardee or the estate of the awardee as promptly as practicable following such determination and may be made in cash, in shares of Common Stock, or partly in cash and partly in shares of Common Stock, as determined by the Committee at the time of payment. For this purpose, performance units expressed in dollars shall be converted to shares, and performance units expressed in shares shall be converted to dollars, based on the fair market value of the Common Stock, determined as provided in Section 5(I), as of the date the amount payable is determined by the Committee.

Except as otherwise provided in Section 8(E), if the employment of a grantee of an award of performance units terminates prior to the close of the Performance Period for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the Corporation or a Subsidiary or death, the unearned performance units shall be deemed not to have been earned and such unearned units shall not be paid.

Whether termination of employment is a voluntary termination with the consent of the Corporation or a Subsidiary shall be determined, in its discretion, by the Committee and any such determination by the Committee shall be final and binding.

If an awardee of performance units (i) engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment) which is in competition with the Corporation or any of its Subsidiaries (provided, however, that this clause shall not apply if Section 8(E) applies), (ii) induces or attempts to induce any customer, supplier, licensee or other individual, corporation or other business organization having a business relationship with the Corporation or any of its Subsidiaries to cease doing business with the Corporation or any of its Subsidiaries or in any way interferes with the relationship between any such customer, supplier, licensee or other person and the Corporation or any of its Subsidiaries or (iii) solicits any employee of the Corporation or any of its Subsidiaries to leave the employment thereof or in any way interferes with the relationship of such employee with the Corporation or any of its Subsidiaries, the Committee may immediately cancel the award. Whether an awardee has engaged in any of the activities referred to the preceding sentence which would cause the award of performance units to be canceled shall be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

Performance unit awards shall be evidenced by a written agreement in the form prescribed by the Committee which shall set forth the amount or manner of determining the amount of the performance unit, the Performance Period, the Performance Target and any Minimum Target and such other terms and conditions as the Committee in its discretion deems appropriate. Performance unit awards shall be effective only upon execution of the applicable performance unit agreement on behalf of

the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President, and by the awardee.

SECTION 7  
ADJUSTMENT AND SUBSTITUTION OF SHARES

If a dividend or other distribution shall be declared upon the Common Stock payable in shares of the Common Stock, (i) the number of shares of the Common Stock subject to any outstanding stock options or performance unit awards, (ii) the number of shares of the Common Stock which may be issued under the Plan but are not subject to outstanding stock options or performance unit awards and (iii) the maximum number of shares as to which stock options may be granted and as to which shares may be awarded under the Plan to any employee under Section 4 on the date fixed for determining the stockholders entitled to receive such stock dividend or distribution shall be adjusted by adding thereto the number of shares of the Common Stock which would have been distributable thereon if such shares had been outstanding on such date. Shares of Common Stock so distributed with respect to any restricted shares held in escrow shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares on which they were distributed.

If the outstanding shares of Common Stock shall be changed into or exchangeable for a different number or kind of shares of stock or other securities of the Corporation or another corporation, whether through reorganization, reclassification, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted for each share of the Common Stock subject to any then outstanding stock option or performance unit award, for each share of the Common Stock which may be issued under the Plan but which is not then subject to any outstanding stock option or performance unit award and for the maximum number of shares as to which stock options may be granted and as to which shares may be awarded under the Plan to any employee under Section 4, the number and kind of shares of stock or other securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchangeable. Unless otherwise determined by the Committee, in its discretion, any such stock or securities, as well as any cash or other property, into or for which any restricted shares held in escrow shall be changed or exchangeable in any such transaction shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares in respect of which such stock, securities, cash or other property was issued or distributed.

In case of any adjustment or substitution as provided for in the first two paragraphs of this Section 7, the aggregate option price for all shares subject to each then outstanding stock option prior to such adjustment or substitution shall be the aggregate option price for all shares of stock or other securities (including any fraction) to which such shares shall have been adjusted or which shall have been substituted for such shares.

Any new option price per share shall be carried to at least three decimal places with the last decimal place rounded upwards to the nearest whole number.

If the outstanding shares of the Common Stock shall be changed in value by reason of any spin-off, split-off or split-up, or dividend in partial liquidation, dividend in property other than cash or extraordinary distribution to holders of the Common Stock, (i) the Committee shall make any adjustments to any then outstanding stock option which it determines are equitably required to prevent dilution or enlargement of the rights of grantees which would otherwise result from any such transaction, and (ii) unless otherwise determined by the Committee, in its discretion, any stock, securities, cash or other property distributed with respect to any restricted shares held in escrow or for which any restricted shares held in escrow shall be exchanged in any such transaction shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares in respect of which such stock, securities, cash or other property was distributed or exchanged.

No adjustment or substitution provided for in this Section 7 shall require the Corporation to issue or sell a fraction of a share or other security. Accordingly, all fractional shares or other securities which result from any such adjustment or substitution shall be eliminated and not carried forward to any subsequent adjustment or substitution. Owners of restricted shares held in escrow shall be treated in the same manner as owners of Common Stock not held in escrow with respect to fractional shares created by an adjustment or substitution of shares, except that, unless otherwise determined by the Committee, in its discretion, any cash or other property paid in lieu of a fractional share shall be subject to restrictions similar to those applicable to the restricted shares exchanged therefor.

If any adjustment or substitution provided for in this Section 7 requires the approval of stockholders in order to enable the Corporation to grant incentive stock options or to comply with Section 162(m) of the Code, then no such adjustment or substitution shall be made without the required stockholder approval. Notwithstanding the foregoing, in the case of incentive stock options, if the effect of any such adjustment or substitution would be to cause the stock option to fail to continue to qualify as an incentive stock option or to cause a modification, extension or renewal of such stock option within the meaning of Section 424 of the Code, the Committee may elect that such adjustment or substitution not be made but rather shall use reasonable efforts to effect such other adjustment of each then outstanding stock option as the Committee, in its discretion, shall deem equitable and which will not result in any disqualification, modification, extension or renewal (within the meaning of Section 424 of the Code) of the incentive stock option.

Except as provided in this Section 7, a grantee shall have no rights by reason of any issue by the Corporation of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

#### SECTION 8 ADDITIONAL RIGHTS IN CERTAIN EVENTS

##### (A) DEFINITIONS

For purposes of this Section 8, the following terms shall have the following meanings:

(1) The term "Person" shall be used as that term is used in Sections 13(d) and 14(d) of the 1934 Act as in effect on the effective date of the Plan.

(2) "Beneficial Ownership" shall be determined as provided in Rule 13d-3 under the 1934 Act as in effect on the effective date of the Plan.

(3) A specified percentage of "Voting Power" of a company shall mean such number of the Voting Shares as shall enable the holders thereof to cast such percentage of all the votes which could be cast in an annual election of directors (without consideration of the rights of any class of stock other than the common stock of the company to elect directors by a separate class vote); and "Voting Shares" shall mean all securities of a company entitling the holders thereof to vote in an annual election of directors (without consideration of the rights of any class of stock other than the common stock of the company to elect directors by a separate class vote).

(4) "Tender Offer" shall mean a tender offer or exchange offer to acquire securities of the Corporation (other than such an offer made by the Corporation or any Subsidiary), whether or not such offer is approved or opposed by the Board.

(5) "Continuing Directors" shall mean a director of the Corporation who either (a) was a director of the Corporation on the effective date of the Plan or (b) is an individual whose election, or nomination for election, as a director of the Corporation was approved by a vote of at least two-thirds of

the directors then still in office who were Continuing Directors (other than an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Corporation which would be subject to Rule 14a-11 under the 1934 Act, or any successor Rule).

(6) "Initial Public Offering" shall mean the first public offering of Common Stock consummated after the effective date of the Plan (whether or not registered under the Securities Act of 1933, as amended).

(7) "Designated Person" shall mean (a) the Westinghouse Air Brake Company Employee Stock Ownership Plan and the Westinghouse Air Brake Company Employee Stock Ownership Trust (collectively, the "ESOP"), (b) the RAC Voting Trust (the "Voting Trust") and (c) any Person serving on the Committee administering the ESOP or as Trustee of the Voting Trust, to the extent that such Person is deemed to have Beneficial Ownership of shares of Common Stock held by the ESOP or the Voting Trust.

(8) "SIH" shall mean Incentive AB or Scandinavian Incentive Holding B.V. or any of their respective subsidiaries.

(9) "Section 8 Event" shall mean the date upon which any of the following events occurs:

(a) The Corporation acquires actual knowledge that (i) any Person, other than the Corporation, a Subsidiary, any employee benefit plan(s) sponsored by the Corporation or a Subsidiary, any Designated Person or SIH, has acquired the Beneficial Ownership, directly or indirectly, of securities of the Corporation entitling such Person to 30% or more of the Voting Power of the Corporation, or (ii) SIH has acquired Beneficial ownership, directly or indirectly, of securities of the Corporation entitling SIH to 40% or more of the Voting Power of the Corporation (30% if the Initial Public Offering has been consummated and the Common Stock is registered pursuant to Section 12(b) or 12(g) of the 1934 Act); or (iii) SIH and any Person or Persons who agree to act together for the purpose of acquiring, holding, voting or disposing of securities of the Corporation or who act in concert or otherwise with the purpose or effect of changing or influencing control of the Corporation, or in connection with or as a participant in any transaction having such purpose or effect, have acquired the Beneficial Ownership, directly or indirectly, of securities of the Corporation entitling SIH and such Person(s) to 40% or more of the Voting Power of the Corporation (30% if the Initial Public Offering has been consummated and the Common Stock is registered pursuant to Section 12 (b) or 12 (g) of the 1934 Act);

(b) A Tender Offer is made to acquire securities of the Corporation entitling the holders thereof to 30% or more of the Voting Power of the Corporation; or

(c) A solicitation subject to Rule 14a-11 under the 1934 Act (or any successor Rule) relating to the election or removal of 50% or more of the members of the Board or any class of the Board shall be made by any person other than the Corporation or less than 51% of the members of the Board (excluding vacant seats) shall be Continuing Directors; or

(d) The stockholders of the Corporation shall approve a merger, consolidation, share exchange, division or sale or other disposition of assets of the Corporation as a result of which the stockholders of the Corporation immediately prior to such transaction shall not hold, directly or indirectly, immediately following such transaction a majority of the Voting Power of (i) in the case of a merger or consolidation, the surviving or resulting corporation, (ii) in the case of a share exchange, the acquiring corporation or (iii) in the case of a division or a sale or other disposition of assets, each surviving, resulting or acquiring corporation which, immediately following the transaction, holds more than 30% of the consolidated assets of the Corporation immediately prior to the transaction;

provided, however, that (i) if securities beneficially owned by a grantee are included in determining the Beneficial Ownership of a Person referred to in paragraph 9(a)(i) above, (ii) a grantee is required to be named pursuant to Item 2 of the Schedule 14D-1 (or any similar successor filing requirement) required to be filed by the bidder making a Tender Offer referred to in paragraph 9(a)(ii) above or (iii) if a grantee is a "participant" as defined in Instruction 3 to Item 4 of Schedule 14A under the 1934 Act (or any successor Rule) in a solicitation (other than a solicitation by the Corporation) referred to in paragraph 9(a)(iii) above, then no Section 8 Event with respect to such grantee shall be deemed to have occurred by reason of such event. Neither SIH nor any other Person shall be deemed to have agreed to act together or to be acting in concert or otherwise for purposes of paragraph 9(a)(iii) above to the extent that they are acting pursuant to and in accordance with the terms of the Voting Trust Agreement creating the Voting Trust or the Stockholders Agreement dated as of January 31, 1995 among the Corporation, SIH and the Voting Trust.

(B) ACCELERATION OF THE EXERCISE DATE OF STOCK OPTIONS

Subject to the provisions of Section 4 in the case of incentive stock options, unless the agreement referred to in Section 5(H), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, in case any "Section 8 Event" occurs all outstanding stock options (other than those held by a person referred to in the proviso to Section 8(A)(9)) shall become immediately and fully exercisable whether or not otherwise exercisable by their terms.

(C) EXTENSION OF THE EXPIRATION DATE OF STOCK OPTIONS

Subject to the provisions of Section 4 in the case of incentive stock options, unless the agreement referred to in Section 5(H), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, all outstanding stock options held by a grantee (other than a grantee referred to in the proviso to Section 8(A)(9)) whose employment with the Corporation or a Subsidiary terminates within one year of any Section 8 Event for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the Corporation or a Subsidiary or death which are exercisable shall continue to be exercisable for a period of three years from the date of such termination of employment, but in no event after the expiration date of the stock option.

(D) LAPSE OF RESTRICTIONS ON RESTRICTED SHARE AWARDS

Unless the agreement referred to in Section 6(A), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, if any "Section 8 Event" occurs prior to the scheduled lapse of all restrictions applicable to restricted share awards under the Plan (other than those held by a person referred to in the proviso to Section 8(A)(9)), all such restrictions shall lapse upon the occurrence of any such "Section 8 Event" regardless of the scheduled lapse of such restrictions.

(E) PAYMENT OF PERFORMANCE UNITS

Unless the agreement referred to in Section 6(B), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, if any "Section 8 Event" occurs prior to the end of any Performance Period, all performance units (unless the awardee is a person referred to in the proviso to Section 8(A)(9)) shall be deemed to have been fully earned as of the date of the Section 8 Event, regardless of the attainment or nonattainment of any Performance Target or any Minimum Target and shall be paid to the awardee thereof as promptly as practicable after the Section 8 Event. If the performance unit is not expressed as a fixed amount in dollars or shares, the Committee may provide in the performance unit agreement for the amount to be paid in the case of Section 8 Event.

## (F) TAX-RELATED CASH PAYMENTS

Unless the agreements referred to in Sections 5(H), 6(A) or 6(B), or an amendment thereto, shall otherwise provide, if the independent auditors most recently selected by the Board determine that (i) any grant, payment or transfer to or for the benefit of a grantee or awardee under the Plan (whether granted, paid or payable or transferred or transferable pursuant to the Plan or otherwise) (a "Payment") would be deemed to be an "excess parachute payment" for Federal income tax purposes because of Section 280G of the Code, or any successor provision ("Section 280G"), and (ii) any grant, payment or transfer under the Plan to or for the benefit of a grantee or awardee within one year of or following the occurrence of a Section 8 Event constitutes in whole or in part a "parachute payment" under Section 280G (without regard to Section 280G(b)(4)) used in calculating such "excess parachute payment," the Payment will be grossed up through the payment by the Corporation to the grantee or awardee in cash of the amount of any excise tax under Section 4999 of the Code, or any successor provision ("Section 4999"), on the "excess parachute payment" and the amount of any excise tax under Section 4999 and applicable income tax on the total amount of such gross up payment, so that the grantee or awardee will receive the full amount of the Payment after the grantee or awardee has paid any excise tax under Section 4999 of the Code on the "excess parachute payment" and any excise tax under Section 4999 and applicable income tax on the amount of such gross up payment. On the later of the date an "excess parachute payment" is paid to or for the benefit of the grantee or awardee or the date on which it can be first determined that a Payment would be deemed to be an "excess parachute payment," the Corporation shall pay or distribute to or for the benefit of the grantee or awardee the gross up payment due to the grantee or awardee under this Section 8(F).

## SECTION 9

## EFFECT OF THE PLAN ON THE RIGHTS OF EMPLOYEES AND EMPLOYER

Neither the adoption of the Plan nor any action of the Board or the Committee pursuant to the Plan shall be deemed to give any employee any right to be granted a stock option (with or without cash payment rights) or to be awarded restricted shares or performance units under the Plan. Nothing in the Plan, in any stock option or cash payment rights granted under the Plan or in any award of restricted shares or performance units under the Plan or in any agreement providing for any of the foregoing shall confer any right on any employee to continue in the employ of the Corporation or any Subsidiary or interfere in any way with the rights of the Corporation or any Subsidiary to terminate the employment of any employee at any time.

SECTION 10  
WITHHOLDING

Income, excise or employment taxes may be required to be withheld by the Corporation or a Subsidiary in connection with the grant or exercise of a stock option, upon a "disqualifying disposition" of the shares acquired upon exercise of an incentive stock option, at the time restricted shares are granted or vest or performance units are earned or upon the receipt by the grantee of cash in payment of cash payment rights or dividends on restricted stock which has not vested. Any taxes required to be withheld by the Corporation or any of its Subsidiaries upon the receipt by the grantee of cash in payment of cash payment rights or dividends will be satisfied by the Corporation by withholding the taxes required to be withheld from the cash the grantee would otherwise receive. The Corporation will request that the grantee pay any additional amount required to be withheld directly to the Corporation in cash. If a grantee does not pay any taxes required to be withheld by the Corporation or any of its Subsidiaries within ten days after a request for the payment of such taxes, the Corporation or such Subsidiary may withhold such taxes from any compensation to which the grantee is entitled.

SECTION 11  
AMENDMENT

The right to alter and amend the Plan at any time to time and the right to revoke or terminate the Plan are hereby specifically reserved to the Board; provided that no such alteration or amendment of the

Plan shall, without stockholder approval, (i) increase the number of shares which may be issued under the Plan as set forth in Section 3, (ii) increase the maximum number of shares as to which stock options may be granted and as to which shares may be awarded under the Plan to any one employee as set forth in Section 4, (iii) make any changes in the class of employees eligible to receive options or awards under the Plan or (iv) be made if stockholder approval of the amendment is at the time required for grants or awards under the Plan to qualify for the exemption from Section 16(b) of the 1934 Act provided by Rule 16b-3 or by the rules of the New York Stock Exchange or any other stock exchange on which the Common Stock may then be listed. No alteration, amendment, revocation or termination of the Plan shall, without the written consent of the holder of an outstanding grant or award under the Plan, adversely affect the rights of such holder with respect to such outstanding grant or award.

SECTION 12  
EFFECTIVE DATE AND DURATION OF PLAN

The effective date and date of adoption of the Plan shall be May 26, 1995, the date of adoption of the Plan by the Board, and the effective date of the amendments to the Plan adopted by the Board on July 29, 1997 shall be July 29, 1997. No stock option or cash payment rights may be granted and no restricted shares or performance units payable in performance shares may be awarded under the Plan subsequent to May 26, 2005.

## WESTINGHOUSE AIR BRAKE COMPANY

1995 NON-EMPLOYEE DIRECTORS' FEE AND STOCK OPTION PLAN  
(AS AMENDED THROUGH JULY 29, 1997)

The purposes of the 1995 Non-Employee Directors' Fee and Stock Option Plan (as amended, the "Plan") are to provide for each director of Westinghouse Air Brake Company (the "Company") who is not also an employee of the Company or any of its subsidiaries (a "non-employee Director") the payment of a portion of the retainer fees for future services to be performed by such non-employee Director ("Director Fees") as a member of the Board of Directors of the Company (the "Board") in shares of Common Stock of the Company. The purposes of the Plan are further to promote the long-term success of the Company by creating a long-term mutuality of interests between the non-employee Directors and stockholders of the Company, to provide an additional inducement for such non-employee Directors to remain with the Company and to provide a means through which the Company may attract able persons to serve as Directors of the Company.

SECTION 1  
ADMINISTRATION

The Plan shall be administered by a Committee (the "Committee") appointed by the Board of Directors of the Company (the "Board") and consisting of not less than two members of the Board, each of whom at the time of appointment to the Committee and at all times during service as a member of the Committee shall be "Non-Employee Directors" as then defined under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), or any successor Rule. The Committee shall keep records of action taken at its meetings. A majority of the Committee shall constitute a quorum at any meeting, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all the members of the Committee, shall be the acts of the Committee.

The Committee shall interpret the Plan and prescribe such rules, regulations and procedures in connection with the operations of the Plan as it shall deem to be necessary and advisable for the administration of the Plan consistent with the purposes of the Plan. All questions of interpretation and application of the Plan, or as to stock issued or stock options granted under the Plan, shall be subject to the determination of the Committee, which shall be final and binding.

Notwithstanding the above, the selection of the Directors to whom stock may be issued for Director Fees or to whom stock options are to be granted, the timing of such issuance or grants, the number of shares subject to any issuance or stock option, the exercise price of any stock option, the vesting or forfeiture of any stock option, the periods during which any stock option may be exercised and the term of any stock option shall be as hereinafter provided, and the Committee shall have no discretion as to such matters.

SECTION 2  
SHARES AVAILABLE UNDER THE PLAN

The aggregate number of shares which may be issued or delivered and as to which grants of stock options may be made under the Plan is 100,000 shares of the Common Stock, par value \$.01 per share, of the Company (the "Common Stock"), subject to adjustment and substitution as set forth in Section 6. If any stock option granted under the Plan is canceled by mutual consent, is forfeited or terminates or expires for any reason without having been exercised in full, the number of shares subject thereto shall again be available for purposes of the Plan. The shares which may be issued or delivered under the Plan may be either authorized but unissued shares or reacquired shares or partly each, as shall be determined from time to time by the Board. If the number of shares then remaining available, either for the payment of Directors Fees through the use of shares as described in Section 3 below or for the grant of stock options as described in Section 4 below, is not sufficient for each non-employee Director entitled to receive the same to be issued the number of shares or to be granted an option for the number of shares, as the case may be, to which such non-employee Director is entitled (or the number of adjusted or substituted shares pursuant to Section 6), then each non-employee Director shall be issued a number of whole shares or granted an option for a number of whole shares, as the case may be, equal to the number of shares then remaining times a percentage obtained by dividing the number of shares or option shares to which such non-employee Director is entitled by the total number of shares or option shares to be granted to all non-employee Directors at such time, disregarding any fractions of a share.

SECTION 3  
PAYMENT OF DIRECTOR FEES

Each non-employee Director shall automatically and without further action by the Board or the Committee receive payment of Director Fees by the issuance to the non-employee Director of 1,000 shares of Common Stock each calendar year, payable (i) on the first business day following the initial election of such non-employee Director to the Board after the date of adoption of this Plan by the Board, unless such first election occurs at an annual meeting of the Company or within three months prior to the anniversary date of the prior year's annual meeting, in which case payment of such Director Fees shall only occur under subsection (ii) as hereinafter set forth and (ii) for all subsequent issuances, on the first business day following the annual meeting of the stockholders of the Company to the non-employee Directors as of that date. Instead of the payment described in subsection (i) above, each person who is a non-employee Director as of the date of adoption of this Plan shall receive 1,000 shares of Common Stock on the first business day following the date of adoption of this Plan.

SECTION 4  
GRANT OF STOCK OPTIONS

Except as otherwise provided in the last sentence of this Section 4, on the first business day following the initial election and any subsequent re-election of a non-employee Director after the date of adoption of this Plan by the Board or, with respect to persons who are non-employee Directors upon the date of adoption of this Plan by the Board, on the first business day following such adoption, such person shall automatically and without further action by the Board or the Committee be granted (subject to the vesting provisions set forth in Section 5(C)) a "nonstatutory stock option" (i.e., a stock option which does not qualify under Sections 422 or 423 of the Internal Revenue Code of 1986 (the "Code")) to purchase 5,000 shares of Common Stock, subject to adjustment and substitution as set forth in Section 6. With respect to any person who is a non-employee Director upon the date of adoption of this Plan by the Board, such person shall not receive additional grants of stock options pursuant to this Section 4 beyond the initial grant provided in the first sentence of this Section 4 unless and until such person is re-elected to the Board at an annual meeting of stockholders of the Company held after January 1, 1997.

SECTION 5  
TERMS AND CONDITIONS OF STOCK OPTIONS

Stock options granted under the Plan shall be subject to the following terms and conditions:

(A) The purchase price at which each stock option may be exercised (the "option price") shall be one hundred percent (100%) of the fair market value per share of the Common Stock on the date of the grant of such stock option pursuant to the Plan, determined as provided in Section 5(G); provided, however, that for any stock option granted under the Plan on or prior to October 31, 1998, the option price shall be the greater of the aforesaid amount or \$14.00 per share.

(B) The option price for each stock option shall be paid in full upon exercise and shall be payable in cash in United States dollars (including check, bank draft or money order), which may include cash forwarded through a broker or other agent-sponsored exercise or financing program; provided, however, that in lieu of such cash the person exercising the stock option may pay the option price in whole or in part by delivering to the Company shares of the Common Stock having a fair market value on the date of exercise of the stock option, determined as provided in Section 5(G), equal to the option price for the shares being purchased; except that (i) any portion of the option price representing a fraction of a share shall in any event be paid in cash and (ii) no shares of the Common

Stock which have been held for less than one year may be delivered in payment of the option price of a stock option. If the person exercising a stock option participates in a broker or other agent-sponsored exercise or financing program, the Company will cooperate with all reasonable procedures of the broker or other agent to permit participation by the person exercising the stock option in the exercise or financing program. Notwithstanding any procedure of the broker or other agent-sponsored exercise or financing program, if the option price is paid in cash, the exercise of the stock option shall not be deemed to occur and no shares of the Common Stock will be issued or delivered until the Company has received full payment in cash (including check, bank draft or money order) for the option price from the broker or other agent. The date of exercise of a stock option shall be determined under procedures established by the Committee, and as of the date of exercise the person exercising the stock option shall be considered for all purposes to be the owner of the shares with respect to which the stock option has been exercised. Payment of the option price with shares shall not increase the number of shares of the Common Stock which may be issued or delivered under the Plan as provided in Section 2.

(C) Except in the case of death as set forth in section 5(E)(iii), the stock options granted under the Plan shall vest and become exercisable as follows:

(i) options with respect to 2,000 shares shall vest on the first anniversary of the date of grant;

(ii) options with respect to 2,000 shares shall vest on the second anniversary of the date of grant; and

(iii) options with respect to the final 1,000 shares shall vest on the third anniversary of the date of grant.

Subject to the terms of Section 5(E) providing for earlier termination of a stock option, no stock option shall be exercisable after the expiration of ten years from the date of grant. A stock option to the extent exercisable at any time may be exercised in whole or in part.

(D) No stock option shall be transferable by the grantee otherwise than by Will or, if the grantee dies intestate, by the laws of descent and distribution of the state of domicile of the grantee at the time of death. All stock options shall be exercisable during the lifetime of the grantee only by the grantee or the grantee's guardian or legal representative.

(E) If a grantee ceases to be a Director of the Company, any outstanding stock options held by the grantee shall vest and be exercisable and shall terminate, according to the following provisions:

(i) If a grantee ceases to be a non-employee Director of the Company because he is removed without cause or because his term lapses and he is not re-nominated for a new term, any then outstanding stock option held by such grantee shall vest and become exercisable in accordance with the normal vesting schedule applicable to such option and shall remain exercisable until the expiration date of such stock option;

(ii) If during his term of office as a non-employee Director a grantee is removed from office for cause, any then outstanding stock option held by such grantee shall be exercisable by the grantee (but only to the extent that such stock option is vested and exercisable by the grantee immediately prior to ceasing to be a non-employee Director) at any time prior to the expiration date of such stock option or within 90 days after the date of removal, whichever is the shorter period;

(iii) Following the death of a grantee whether during service as a non-employee Director of the Company or thereafter, any outstanding stock option held by the grantee at the time of death (whether or not vested and exercisable by the grantee immediately prior to death) shall vest and be exercisable by the person entitled to do so under the Will of the grantee, or, if the grantee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the grantee at any time prior to the expiration date of such stock option or within one year after the date of death, whichever is the longer period; and

(iv) If during his or her term of office as a non-employee Director a grantee resigns from the Board during his or her term or is nominated for re-election to the Board but fails to win such re-election, any then outstanding stock option held by such grantee shall be exercisable by the grantee (but only to the extent that such stock option is vested and exercisable by the grantee immediately prior to ceasing to be a non-employee Director) at any time prior to the expiration date of such stock option.

(F) All stock options shall be confirmed by an agreement, or an amendment thereto, which shall be executed on behalf of the Company by the Chief Executive Officer (if other than the President), the President or any Vice President and by the grantee.

(G) Fair market value of the Common Stock shall be the mean between the following prices, as applicable, for the date as of which fair market value is to be determined as quoted in The Wall Street Journal (or in such other reliable publication as the Committee, in its discretion, may determine to rely upon): (a) if the Common Stock is listed on the New York Stock Exchange, the highest and lowest sales prices per share of

the Common Stock as quoted in the NYSE-Composite Transactions listing for such date, (b) if the Common Stock is not listed on such exchange, the highest and lowest sales prices per share of Common Stock for such date on (or on any composite index including) the principal United States securities exchange registered under the Securities Exchange Act of 1934 (the "1934 Act") on which the Common Stock is listed, or (c) if the Common Stock is not listed on any such exchange, the highest and lowest sales prices per share of the Common Stock for such date on the National Association of Securities Dealers Automated Quotations System or any successor system then in use ("NASDAQ"). If there are no such sale price quotations for the date as of which fair market value is to be determined but there are such sale price quotations within a reasonable period both before and after such date, then fair market value shall be determined by taking a weighted average of the means between the highest and lowest sales prices per share of the Common Stock as so quoted on the nearest date before and the nearest date after the date as of which fair market value is to be determined. The average should be weighted inversely by the respective numbers of trading days between the selling dates and the date as of which fair market value is to be determined. If there are no such sale price quotations on or within a reasonable period both before and after the date as of which fair market value is to be determined, then fair market value of the Common Stock shall be the mean between the bona fide bid and asked prices per share of Common Stock as so quoted for such date on NASDAQ, or if none, the weighted average of the means between such bona fide bid and asked prices on the nearest trading date before and the nearest trading date after the date as of which fair market value is to be determined, if both such dates are within a reasonable period. The average is to be determined in the manner described above in this Section 5(G). If the fair market value of the Common Stock cannot be determined on the basis previously set forth in this Section 5(G) for the date as of which fair market value is to be determined, the Committee shall in good faith determine the fair market value of the Common Stock on such date. Fair market value shall be determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

(H) The obligation of the Company to issue or deliver shares of the Common Stock under the Plan shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such shares, if deemed necessary or appropriate by counsel for the Company, (ii) the condition that the shares shall have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange, if any, on which the Common Stock shares may then be listed and (iii) all other applicable laws, regulations, rules and orders which may then be in effect.

Subject to the foregoing provisions of this Section 5 and the other provisions of the Plan, any stock option granted under the Plan may be subject to such restrictions and other terms and conditions, if any, as shall be determined, in its discretion, by the Committee and set forth in the agreement referred to in Section 5(F), or an amendment thereto.

SECTION 6  
ADJUSTMENT AND SUBSTITUTION OF SHARES

If a dividend or other distribution payable in shares of the Common Stock shall be declared upon the Common Stock, the number of shares of the Common Stock set forth in Sections 3 and 4, the number of shares of the Common Stock then subject to any outstanding stock options and the number of shares of the Common Stock which may be issued or delivered under the Plan but are not then subject to outstanding stock options shall be adjusted by adding thereto the number of shares of the Common Stock which would have been distributable thereon if such shares had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend or distribution.

If the outstanding shares of the Common Stock shall be changed into or exchangeable for a different number or kind of shares of stock or other securities of the Company or another corporation, whether through reorganization, reclassification, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted for each share of the Common Stock set forth in Sections 3 and 4, for each share of the Common Stock subject to any then outstanding stock option, and for each share of the Common Stock which may be issued or delivered under the Plan but which is not then subject to any outstanding stock option, the number and kind of shares of stock or other securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchangeable.

In case of any adjustment or substitution as provided for in this Section 6, the aggregate option price for all shares subject to each then outstanding stock option prior to such adjustment or substitution shall be the aggregate option price for all shares of stock or other securities (including any fraction) to which such shares shall have been adjusted or which shall have been substituted for such shares. Any new option price per share shall be carried to at least three decimal places with the last decimal place rounded upwards to the nearest whole number.

If the outstanding shares of Common Stock shall be changed in value by reason of spin-off, split-off, or dividend in partial liquidation, dividend in property other than cash or extraordinary distribution to holders of the Common Stock, the Committee shall make any adjustments to any then outstanding stock option which it determines are equitably required to prevent dilution or enlargement of the rights of grantees which would otherwise result from any such transaction.

No adjustment or substitution provided for in this Section 6 shall require the Company to issue or deliver or sell a fraction of a share or other security. Accordingly, all fractional shares or other securities which result from any such adjustment or substitution shall be eliminated and not carried forward to any subsequent adjustment or substitution.

Except as provided in this Section 6, a grantee shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payments of any stock dividends or any other increase or decrease in the number of shares of stock of any class.

#### SECTION 7

##### EFFECT OF THE PLAN ON THE RIGHTS OF COMPANY AND STOCKHOLDERS

Nothing in the Plan, in any Director Fees paid or stock option granted under the Plan, or in any stock option agreement shall confer any right to any person to continue as a Director of the Company or interfere in any way with the rights of the stockholders of the Company or the Board of Directors to elect and remove Directors.

#### SECTION 8

##### AMENDMENT AND TERMINATION

The right to amend the Plan at any time and from time to time and the right to terminate the Plan at any time are hereby specifically reserved to the Board; provided always that no such termination shall terminate any outstanding stock options granted under the Plan; and provided further that no amendment of the Plan shall (a) be made without stockholder approval if stockholder approval of the amendment is at the time required for stock issued for Director Fees or stock options under the Plan to qualify for the exemption from Section 16(b) of the 1934 Act provided by Rule 16b-3 or by the rules of the New York Stock Exchange or any other stock exchange on which the Common Stock may then be listed, (b) amend more than once every six months the provisions of the Plan relating to the selection of the Directors to whom stock may be issued for Directors Fees or to whom stock options are to be granted, the timing of such issuance or grants, the number of shares subject to any issuance or stock option, the exercise price of any stock option, the periods during which any stock option may be exercised and the term of any stock option other than to comport with changes in the Code or the rules and regulations thereunder or (c) otherwise amend the Plan in any manner that would cause stock issued for Director Fees or stock options under the Plan not to qualify for the exemption provided by Rule 16b-3. No amendment or termination of the Plan shall, without the written consent of the holder of a stock option theretofore awarded under the Plan, adversely affect the rights of such holder with respect thereto.

Notwithstanding anything contained in the preceding paragraph or any other provision of the Plan or any stock option agreement, the Board shall have the power to amend the Plan in any manner deemed necessary or advisable for stock issued for Director Fees or stock

options granted under the Plan to qualify for the exemption provided by Rule 16b-3 (or any successor rule relating to exemption from Section 16(b) of the 1934 Act), and any such amendment shall, to the extent deemed necessary or advisable by the Board, be applicable to any outstanding stock options theretofore granted under the Plan notwithstanding any contrary provisions contained in any stock option agreement. In the event of any such amendment to the Plan, the holder of any stock option outstanding under the Plan shall, upon request of the Committee and as a condition to the exercisability of such option, execute a conforming amendment in the form prescribed by the Committee to the stock option agreement referred to in Section 5(F) within such reasonable time as the Committee shall specify in such request.

SECTION 9  
EFFECTIVE DATE AND DURATION OF PLAN

The effective date and date of adoption of the Plan shall be November 1, 1995, the date of adoption of the Plan by the Board (such adoption of the Plan by the Board having been approved by the majority of the votes cast at a meeting of the holders of voting stock of the Company) and the effective date of the amendments to the Plan adopted by the Board on July 29, 1997 shall be July 29, 1997. No stock may be issued for Director Fees and no stock option may be granted under the Plan subsequent to October 31, 2005.

## EXHIBIT 10.25

WESTINGHOUSE AIR BRAKE COMPANY  
1998 EMPLOYEE STOCK PURCHASE PLAN

(ADOPTED BY THE STOCKHOLDERS ON MAY 26, 1998)

The purposes of the 1998 Employee Stock Purchase Plan (the "Plan") are to provide eligible employees of Westinghouse Air Brake Company (the "Company") and its Subsidiaries a convenient opportunity to purchase shares of the Common Stock, par value \$.01 per share, of the Company (the "Common Stock") through quarterly offerings financed by payroll deductions and to provide a stock ownership incentive for such employees to promote the continued success of the Company. For the purposes of the Plan, the term "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing at least fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain. The Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986 (the "Code"). The provisions of the Plan shall accordingly be construed so as to extend and limit participation in a manner consistent with the requirements of Section 423 of the Code and the regulations thereunder. For the purposes of the Plan, the term "Agent" shall mean Mellon Bank, N.A. or ChaseMellon Shareholder Services L.L.C. or such successor agent as the Company may employ. The Company reserves the right to change the Agent without notice.

PARTICIPATION IN THE PLAN IS VOLUNTARY, AND NO RECOMMENDATION IS MADE TO EMPLOYEES AS TO WHETHER THEY SHOULD OR SHOULD NOT PARTICIPATE IN THE PLAN. THERE IS NO GUARANTEE UNDER THE PLAN AGAINST LOSS BECAUSE OF FLUCTUATIONS IN THE MARKET PRICE OF THE COMMON STOCK AND, IN THE CASE OF NON-UNITED STATES EMPLOYEES, BECAUSE OF FLUCTUATIONS IN THE U.S. DOLLAR EXCHANGE RATE. IN SEEKING THE BENEFITS OR SHARE OWNERSHIP, EACH EMPLOYEE MUST ALSO ACCEPT THE RISKS ATTENDANT TO SUCH OWNERSHIP.

SECTION 1  
ADMINISTRATION

The Plan shall be administered by a Committee (the "Committee") appointed by the Board of Directors of the Company (the "Board") and consisting of not less than two members of the Board.

The Committee shall keep records of action taken at its meetings. A majority of the Committee shall constitute a quorum at any meeting, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts unanimously approved in writing by the Committee, shall be the acts of the Committee.

The Committee shall interpret the Plan and prescribe such rules, regulations and procedures in connection with the operations of the Plan as it shall deem to be necessary and advisable for the administration of the Plan consistent with the purposes of the Plan. All questions of interpretation and application of the Plan shall be subject to the determination of the Committee, which shall be final and binding. Neither the Company nor the Committee is liable for any act done in good faith or for any good faith omission to act, including, without limitation, any claim of liability with respect to the prices or times at which shares of Common Stock are issued or delivered or sold, or with respect to any fluctuation in market value before or after any issuance or delivery or sale of shares.

The day-to-day administrative and procedural matters associated with the Plan shall be the responsibility of an on-site Plan administrator (the "Administrator") who shall be under the direction of the Committee and whose duties shall include, without limitation, communication with employees, periodic reporting to the Committee and decision-making with respect to certain matters under the Plan; provided, however, that any decisions made by the Administrator may be subject to the Committee's ratification or reversal in its discretion.

## SECTION 2 ELIGIBILITY

Any person who as of the first day of a Purchase Period (as defined in Section 4) is a full-time or a regular part-time employee of the Company or a full-time or a regular part-time employee of a Subsidiary authorized by the Committee to participate in the Plan shall be eligible to participate in the Plan during such Purchase Period. A full-time employee of the Company or one of its Subsidiaries is an employee who has been employed by the Company or one of its Subsidiaries on a full-time basis for at least one year, and a regular part-time employee of the Company or one of its Subsidiaries is one who has been employed by the Company or one of its Subsidiaries for at least one year and whose customary employment is 20 or more hours per week during the period of employment by the Company or one of its Subsidiaries. Employees of the Company or one of its Subsidiaries who are citizens of countries or jurisdictions the laws of which make participation illegal will not be permitted to participate.

Notwithstanding any other provision of the Plan, no employee shall be granted an option under the Plan if such employee, immediately after the option is granted, owns stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or any Subsidiary. For purposes of the preceding sentence, the rules of Section 424(d) of the Code shall apply in determining the stock ownership of an employee, and stock which the employee may purchase under outstanding options shall be treated as stock owned by the employee.

## SECTION 3 SHARES AVAILABLE UNDER THE PLAN

The aggregate number of shares of the Common Stock which may be issued under the Plan is 200,000 shares, subject to adjustment and substitution as set forth in Section 11. The shares which may be issued under the Plan shall be reacquired (treasury) shares.

## SECTION 4 PURCHASE PERIODS; GRANT OF STOCK OPTIONS

Unless otherwise determined by the Committee, (a) there shall be twenty quarterly Purchase Periods under the Plan, (b) each such Purchase Period shall be equivalent to a calendar quarter, beginning on the first day of a calendar quarter and ending on the last day of a calendar quarter and (c) the first Purchase Period under the Plan shall commence on July 1, 1998 and shall end on September 30, 1998. In no event shall the duration of any Purchase Period exceed twenty-seven (27) months.

On the first day of each Purchase Period, each employee participating in the Plan on such date shall be granted an option to purchase a number of shares of Common Stock (subject to adjustment as provided in Section 11 determined by dividing (a) twenty percent (20%) of the employee's Basic Compensation, as defined in Section 5, for the last three calendar months of the immediately preceding calendar year, by (b) eighty-five percent (85%) of the fair market value of a share of Common Stock on the first day of such Purchase Period, determined as provided in Section 7. To the extent an option to purchase shares of Common Stock is not exercised at the end of the Purchase Period as provided for in Section 6, the option shall terminate.

If as a result of a merger, acquisition or similar transaction occurring after the first day of the then current Purchase Period a corporation or other entity becomes a Subsidiary authorized to participate in the Plan, the Committee may in its sole discretion authorize a special Purchase Period to accommodate the employees of such Subsidiary, provided that such special Purchase Period is consistent with the requirements of Section 423 of the Code and the regulations thereunder.

Notwithstanding any other provision of the Plan, no employee participating in the Plan shall be granted an option which permits the employee's rights to purchase stock under all employee stock purchase plans under Section 423 of the Code of the Company or any Subsidiary to accrue at a rate which exceeds \$25,000 of the fair market value of the Common Stock, determined at the time such option is granted, or such other maximum as may be prescribed for qualifying employee stock purchase plans under Section 423 of the Code, for each calendar year in which such option is outstanding at any time.

#### SECTION 5 PAYROLL DEDUCTIONS

An eligible employee may become a participant in the Plan for a Purchase Period by enrolling and authorizing payroll deductions from his or her compensation using the telephone authorization system which will be provided by the Agent (details concerning the use of the system will be provided separately to employees) by the enrollment deadline established for the Purchase Period. Unless otherwise determined by the Committee, the enrollment deadline for each Purchase Period shall be five days prior to the first day of such Purchase Period. Any enrollment completed after such deadline shall be effective only for the beginning of the next succeeding Purchase Period. An eligible employee who was a participant in the Plan at the close of the preceding Purchase Period shall automatically be enrolled as a participant in the Plan for the succeeding Purchase Period, if any, unless the employee's notice of disenrollment and withdrawal as described below in this Section 5 is received via the telephone authorization system of the Agent prior to the enrollment deadline established for the Purchase Period.

At the time an employee enrolls and authorizes payroll deductions via the telephone authorization system of the Agent, the employee shall elect to have deductions made from the employee's pay for each pay period ending during the Purchase Period at a rate of not less than two percent (2%) and not more than twenty percent (20%), in whole percentages, of the employee's Basic Compensation for such pay periods. Unless the employee changes his or her prior payroll deduction amount via the telephone authorization system of the Agent prior to the enrollment deadline for a Purchase Period, an employee who is automatically re-enrolled in the Plan for a Purchase Period by virtue of having been a participant for the preceding Purchase Period shall be deemed to have elected the same level of payroll deductions for the new Purchase Period as was in effect for the participant as of the close of the preceding Purchase Period. For this purpose and the purposes of Section 4, Basic Compensation shall mean the sum of (a) base salary or base wages paid to an employee, including overtime, vacation pay and holiday pay but excluding the items set forth in the next succeeding sentence to the extent they are included in such definition of base salary or base wages, and (b) salary reduction contributions to a cafeteria plan or cash or deferred Section 401(k) plan sponsored by the Company or a Subsidiary (exclusive of any employer's matching contribution). Basic Compensation shall exclude (a) bonuses or other incentive compensation (including compensation from the exercise of stock options or similar incentive compensation), (b) any fringe benefits (including any benefits required to be provided by any governmental authority), and (c) contributions or benefits (except as specifically listed in the preceding sentence) under any employee benefit plans maintained by the Company or a subsidiary. Notwithstanding the foregoing, no payroll deduction shall be made pursuant to a payroll deduction authorization form filed by any employee who has made a hardship withdrawal from the Westinghouse Air Brake Company Savings Plan for a period of 12 months from the date of such hardship withdrawal if the hardship withdrawal has been made in reliance on Treasury Regulation Section 1.401(k)-1(d)(2)(iv)(B) or any successor regulation.

Payroll deductions made under the Plan need not be set aside or segregated from other corporate funds of the Company or any Subsidiary and may be used for any corporate purpose. With respect to such payroll deductions, the rights of participants shall be those of an unsecured general creditor.

An employee contribution account will be established by the Company for each employee participating in the Plan, and payroll deductions made pursuant to this Section 5 shall be credited to the individual employee's contribution account. Unless otherwise determined by the Committee in its discretion, no interest shall be credited or paid on such account.

Subject to such rules, regulations or procedures as may be adopted by the Committee, an employee may at any time increase, decrease or suspend the employee's payroll deduction by using the telephone authorization system of the Agent. The change shall be effective as soon as practicable but in no event shall it become effective earlier than the first pay period ending after the employee makes such change via the telephone authorization system of the Agent. Unless otherwise provided in rules, regulations or procedures established by the Committee, a payroll deduction may be changed only once during a Purchase Period. In addition, all payroll deductions for an employee will be automatically suspended for a period of 12 months from the date of a hardship withdrawal by the employee from the Westinghouse Air Brake Company Savings Plan if the hardship withdrawal has been made in reliance on Treasury Regulation Section 1.401(k)-1(d)(2)(iv)(B) or any successor regulation.

An employee may at any time prior to five days before the last day of a Purchase Period and for any reason disenroll and permanently withdraw the balance accumulated in the employee's contribution account, and thereby withdraw from participation in the Plan. An employee electing to do the same must use the telephone authorization system of the Agent to provide notice of disenrollment and withdrawal, and the disenrollment and withdrawal shall be effective as soon as practicable after the employee makes such election via the telephone authorization system of the Agent. Payroll deductions shall cease and the amounts credited to the employee's contribution account shall be paid to the employee by the Company as soon as practicable after receipt of the notice of disenrollment and withdrawal. Further, such employee's Common Stock account shall be terminated in accordance with Section 10. The employee may thereafter elect to re-enroll and participate in the Plan for a subsequent Purchase Period but may not again elect participation for the Purchase Period including the date of disenrollment and withdrawal. Partial withdrawals shall not be permitted.

#### SECTION 6 PURCHASE OF SHARES

Subject to Section 10, and unless a notice of withdrawal has been received prior to such date as provided in Section 5, an employee having a balance in the employee's contribution account on the last day of the Purchase Period shall automatically exercise the employee's option to purchase shares of Common Stock under the Plan. The number of shares purchased by each participating employee shall be determined by dividing (a) the balance in the employee's contribution account by (b) the Purchase Price for such Purchase Period, provided that the number of shares purchased shall not exceed the maximum number of shares subject to the option granted to the employee as provided in Section 4. Fractional shares shall be purchased and credited to an employee's Common Stock account with the Agent as set forth below. Any balance in an employee's contribution account after the exercise of the option and purchase of shares shall be paid to the employee as soon as practicable.

As soon as practicable after each Purchase Period, the Company shall (through the Agent) issue or deliver shares of Common Stock from the treasury of the Company into each purchasing employee's respective Common Stock account maintained by the Agent for such employee. Notwithstanding the foregoing, as of the date of exercise, the purchasing employee shall be considered for all purposes to be the owner of the shares with respect to which the stock options have been exercised.

Each employee with respect to a Common Stock account shall acquire full ownership of all shares and of any fractional interest in a share issued or delivered to a Common Stock account. All shares in such Common Stock accounts shall be registered in the name of the Agent or another nominee or custodian for the benefit of the employees under the Plan. Although an employee may not assign or hypothecate an interest in the Plan as such, upon crediting of shares under the Plan such shares may be sold pursuant to the procedures set forth in Sections 9 and 10 below or, following distribution of such shares to the employee, may be sold, assigned, hypothecated or otherwise dealt with by the employee, subject to Section 12 hereof, as is the case with respect to any other shares of Common Stock the employee may own.

#### SECTION 7 PURCHASE PRICE

The Purchase Price of shares of Common Stock under the Plan for each Purchase Period shall be the lesser of (a) an amount equal to eight-five percent (85%) of the fair market value of the Common Stock as of the first day of such Purchase Period, the day the options are granted under the Plan, or (b) an amount equal to eighty-five percent (85%) of the fair market value of the Common Stock as of the last day of the Purchase Period, the day the options may be exercised under the Plan.

Fair market value of the Common Stock shall be the mean between the following prices, as applicable, for the date as of which fair market value is to be determined as quoted in The Wall Street Journal (or in such other reliable publication as the Committee, in its discretion, may determine to rely upon): (a) if the Common Stock is listed on the New York Stock Exchange, the highest and lowest sales prices per share of the Common Stock as quoted in the NYSE-Composite Transactions listing for such date, (b) if the Common Stock is not listed on such exchange, the highest and lowest sales prices per share of the Common Stock for such date on (or on any composite index including) the principal United States securities exchange registered under the 1934 Act on which the Common Stock is listed, or (c) if the Common Stock is not listed on any such exchange, the highest and lowest sales prices per share of the Common Stock for such date on the National Association of Securities Dealers Automated Quotations System or any successor system then in use ("NASDAQ"). If there are no such sale price quotations for the date as of which fair market value is to be determined but there are such sale price quotations within a reasonable period both before and after such date, then fair market value shall be determined by taking a weighted average of the means between the highest and lowest sales prices per share of the Common Stock as so quoted on the nearest date before and the nearest date after the date as of which fair market value is to be determined. The average should be weighted inversely by the respective numbers of trading days between the selling dates and the date as of which fair market value is to be determined. If there are no such sale price quotations on or within a reasonable period both before and after the date as of which fair market value is to be determined, then fair market value of the Common Stock shall be the mean between the bona fide bid and asked prices per share of the Common Stock as so quoted for such date on NASDAQ, or if none, the weighted average of the means between such bona fide bid and asked prices on the nearest trading date before and the nearest trading date after the date as of which fair market value is to be determined, if both such dates are within a reasonable period. The average is to be determined in the manner described above in this Section 7. If the fair market value of the Common Stock cannot be determined on the basis previously set forth in this Section 7 for the date as of which fair market value is to be determined, the Committee shall in good faith determine the fair market value of the Common Stock on such date.

#### SECTION 8 DIVIDENDS AND OTHER DISTRIBUTION

Except as provided below, all cash dividends and other cash distributions, if any, paid in respect of the shares credited to a Common Stock account, less any amount the Company is required to deduct as backup withholding in respect of the dividend or distribution received, or considered to be received, shall be paid directly to an employee.

Any stock dividends or stock splits in respect of shares of the Common Stock credited to a Common Stock account shall be reflected in the account without charge. Any distributions of other securities or rights to subscribe for additional shares in respect of shares of the Common Stock credited to a Common Stock account relating to an employee shall be made directly to the employee.

SECTION 9  
VOLUNTARY SALE OR WITHDRAWAL OF SHARES

An employee may direct at any time that any or all of the shares credited to the Common Stock account relating to the employee be sold. Upon such sale, a check for the proceeds, less any brokerage commissions and other charges applicable to the sale and less any amount required to be deducted as backup withholding, shall be delivered to the employee. The employee may also request at any time that a certificate or certificates representing any or all of the full shares credited to the Common Stock account relating to the employee be delivered to the employee.

Unless the employee directs that all shares credited to the Common Stock account relating to the employee be sold and the net proceeds delivered to the employee or requests that a certificate or certificates representing all full shares credited to the Common Stock account relating to the employee be delivered to the employee and the employee has also disenrolled from the Plan in accordance with Section 5, the Common Stock account shall remain in effect even if all shares in the account have been sold.

Unless the Committee otherwise directs, each direction or request referred to in this Section 9 shall be made by the employee by using the telephone authorization system of the Agent.

SECTION 10  
TERMINATION OF EMPLOYMENT; TERMINATION OF  
COMMON STOCK ACCOUNT; TRANSFERABILITY

Participation in the Plan shall terminate as of the date of termination of employment of a participating employee (whether by death, retirement, disability or otherwise) and the employee's Common Stock account shall be terminated thereafter as set forth in this Section 10. In the event of a participating employee's termination of employment on or before five days prior to the last day of a Purchase Period, payroll deductions shall be terminated as soon as practicable, no shares shall be purchased for such employee under Section 6 and the balance in the employee's contribution account shall be paid as soon as practicable to the employee, or in the event of the employee's death, to the employee's estate. The Committee shall have the power to determine the date of an employee's retirement or other termination of employment, and any such determination by the Committee shall be final and binding. The Company shall have no liability to any person in the event shares are purchased for a deceased employee under Section 6 prior to receipt by the Agent through the telephone authorization system of the Agent of notice of the death of the participating employee.

The employee may direct within 30 days of notice of disenrollment and withdrawal described in Section 5 or termination of employment, as the case may be, that all shares credited to the Common Stock account be sold and the net proceeds delivered to the employee, or the employee may request within 30 days of such notice or termination of employment that a certificate or certificates representing all full shares credited to the account be delivered to the employee. Any brokerage commissions and other charges applicable to sales and any amount required to be withheld as backup withholding are payable by the employee and will be deducted in determining the net proceeds. If no direction is received within 30 days of such notice or termination of employment, a certificate or certificates representing all full shares credited to the account will be delivered to the employee.

Unless the Committee otherwise directs, each direction or request referred to in the prior paragraph shall be made by the employee by using the telephone authorization system of the Agent.

Upon termination of a Common Stock account, any fractional interest in a share credited to the Common Stock account may be sold and the net proceeds delivered to the employee or the value of the fractional interest may be determined by reference to the current fair market value (determined as set forth in Section 7 above) of the Common Stock and paid to the employee in cash.

Rights granted under the Plan may not be assigned, transferred, pledged or otherwise disposed of in any way by a participating employee, other than on death as described above. Any other attempt to assign, transfer, pledge or otherwise dispose of rights under the Plan shall be without effect, except that the Company may treat such act as a notice of disenrollment and withdrawal from participation in the Plan in accordance with Section 5. Stock options granted under the Plan are not transferable by the participating employee otherwise than by will or the laws of descent and distribution, and are exercisable during the employee's lifetime only by the employee.

#### SECTION 11 ADJUSTMENT AND SUBSTITUTION OF SHARES

If a dividend or other distribution shall be declared upon the Common Stock payable in shares of the Common Stock, the number of shares of the Common Stock then subject to any outstanding stock options and the number of shares of the Common Stock which may be issued under the Plan but are not then subject to outstanding stock options shall be adjusted by adding thereto the number of shares of the Common Stock which would have been distributable thereon if such shares had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend or distribution.

Subject to the Board's ability to terminate the Plan pursuant to Section 16, if the outstanding shares of the Common Stock shall be changed into or exchangeable for a different number or kind of shares of stock or other securities of the Company or another corporation, whether through reorganization, reclassification, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted for each share of the Common Stock subject to any then outstanding stock option and for each share of the Common Stock which may be issued under the Plan but which is not then subject to any outstanding stock option, the number and kind of shares of stock or other securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchangeable.

In case of any adjustment or substitution as provided for in this Section 11, the Committee shall equitably adjust the formula for determining the Purchase Price of outstanding stock options in accordance with the requirements of Sections 423 and 424 of the Code.

If the outstanding shares of the Common Stock shall be changed in value by reason of any spin-off, split-off or split-up, or dividend in partial liquidation, dividend in property other than cash or extraordinary distribution to holders of the Common Stock, the Committee shall make any adjustments to any then outstanding stock option which it determines are equitably required to prevent dilution or enlargement of the rights of participating employees which would otherwise result from any such transaction.

If any adjustment or substitution provided for in this Section 11 requires the approval of stockholders in order to enable the Company to grant stock options under the Plan, then no such adjustment or substitution shall be made without the required stockholder approval. Notwithstanding the foregoing, if the effect of any such adjustment or substitution would be to cause any outstanding option granted under the Plan to fail to continue to qualify as an option subject to Sections 421 and 423 of the Code or to cause a modification, extension or renewal of such option within the meaning of Section 424 of the Code, the Committee may elect that such adjustment or substitution not be made but rather shall use reasonable efforts to effect such other adjustment of each then outstanding stock option as the Committee, in its discretion, shall deem equitable and which will not result in any disqualification, modification, extension or renewal (within the meaning of Section 424 of the Code) of such outstanding stock option.

SECTION 12  
CERTAIN TERMS AND CONDITIONS OF PLAN

The obligation of the Company to issue or deliver shares of the Common Stock under the Plan, or to permit the resale of such shares from an employee's Common Stock account, shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such shares, if deemed necessary or appropriate by counsel for the Company, (ii) the condition that the shares shall have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange, if any, on which the Common Stock may then be listed and (iii) compliance with all other applicable laws, regulations, rules and orders which may then be in effect.

The Plan is intended to enable employees to obtain the Company's Common Stock for investment and not for resale. The Company does not, however, intend to restrict or influence any employee in the conduct of his or her own affairs. An employee may, therefore, sell the Common Stock received under the Plan at any time he or she chooses; provided, however, the sale of such Common Stock must be made in accordance with the Company's policy against insider trading (a copy of which will be delivered by the applicable Human Resources Department or Payroll Location to each employee upon entering the Plan) and in conformance with U.S. federal and state securities laws, Canadian provincial securities laws and securities laws of other countries, as applicable. The employee assumes the risk of any market fluctuations in the price of such Common Stock.

SECTION 13  
EFFECT OF THE PLAN ON THE RIGHTS OF EMPLOYEES AND EMPLOYER

Nothing in the Plan or any stock option under the Plan shall confer any right to any employee to continue in the employ of the Company or any Subsidiary or interfere in any way with the rights of the Company or any Subsidiary to terminate the employment of any employee at any time.

SECTION 14  
INFORMATION FOR ELIGIBLE EMPLOYEES; VOTING RIGHTS

Each participating employee shall receive at least quarterly each year a statement of all transactions affecting the Common Stock account relating to the employee and the number of shares (including any fractional interests in a share) of the Common Stock credited to the Common Stock account. Each employee shall also receive copies of all reports, proxy statements and other communications distributed by the Company to its stockholders generally at the time and in the manner such material is sent to such stockholders.

Participating employees with Common Stock in a Common Stock account shall receive proxy soliciting material in connection with each meeting of stockholders of the Company. Shares can be voted only by the holder of record. The shares of the Common Stock credited to each Common Stock account (including any fractional interests in a share) shall be voted by the holder of record only in accordance with the employee's signed proxy instructions duly delivered to the holder of record.

SECTION 15  
EXPENSES OF THE PLAN

The Company will pay all expenses incident to the operation of the Plan, including the costs of record keeping, accounting fees, legal fees, the costs of delivery of stock certificates to employees and the costs of delivery of shareholder communications. The Company will not pay any expenses, broker's or other commissions or taxes incurred in connection with the sale of shares of the Common Stock credited to a Common Stock account at the direction of the employee. Expenses in connection with any such sale will be deducted from the proceeds of sale prior to any remittance to the employee.

SECTION 16  
AMENDMENT AND TERMINATION

The right to amend the Plan at any time and from time to time and the right to terminate the Plan at any time are hereby specifically reserved to the Board, provided that no amendment of the Plan shall, without stockholder approval, (a) increase the total number of shares which may be issued under the Plan, except as provided in Section 11, (b) amend the first paragraph of Section 7 to lower the minimum Purchase Price or (c) make any changes in the class of corporations whose employees may be offered options under the Plan.

The Plan and all rights of employees under the Plan shall terminate on the earlier of:

(a) June 30, 2003

(b) the date the Plan is terminated by the Board, in its discretion; or

(c) the last day of the Purchase Period that participating employees become entitled to purchase a number of shares equal to or greater than the number of shares remaining available for purchase under the Plan. If the number of shares so purchasable is greater than the shares remaining available, the available shares shall be allocated by the Committee among the participating employees in such manner as it deems fair and which complies with the requirements under Section 423 of the Code for employee stock purchase plans. In the event at any time during a Purchase Period it appears that the shares purchasable with authorized payroll deductions may exceed the number of shares remaining available for purchase under the Plan, the Committee shall have discretion to reduce the payroll deductions authorized by participating employees in such manner as it deems fair and which complies with the requirements under Section 423 of the Code for employee stock purchase plans. The Company shall provide written notice to each affected employee of any such reduction.

As soon as practicable following termination of the Plan, all amounts credited to the contribution accounts of participating employees shall, to the extent not applied to the purchase of shares as provided in subparagraph (c) above, be refunded to the participating employees.

SECTION 17  
GOVERNING LAW; CONSTRUCTION; INTEGRATION

The validity and construction of the Plan shall be governed by the laws of the Commonwealth of Pennsylvania. In construing the Plan, the singular shall include the plural and the masculine gender shall include the feminine, unless the context requires otherwise. The Plan contains all of the understandings and representations between the Company and its Subsidiaries and their employees and supersedes any prior understandings and agreements entered into between them regarding the subject matter of the Plan. There are no representations, agreements, arrangements or understandings, oral or written, between the Company and its Subsidiaries and their employees relating to the subject matter of the Plan which are not fully expressed in the Plan.

SECTION 18  
WITHHOLDING

Any taxes required to be withheld by the Company or any of its Subsidiaries shall be paid by an employee in cash upon the request of the Company. If an employee does not pay any taxes required to be withheld by the Company or any of its Subsidiaries within ten days after a request for the payment of such taxes, the Company or such Subsidiary may withhold such taxes from any compensation to which an employee is entitled and may cause the Agent to withhold the delivery or sale of shares until such taxes are paid.

SECTION 19  
EFFECT ON OTHER PLANS

No income, if any, received by an employee due to the discount in the Purchase Price from the fair market value of the Common Stock provided by the Company under the Plan shall be considered compensation for purposes of any pension or retirement plan, insurance plan or any other employee benefit plan of the Company or a Subsidiary (notwithstanding the definition of compensation provided in such plans), including but not limited to the Westinghouse Air Brake Company Retirement Plan for Non-Bargaining Employees and the Westinghouse Air Brake Company Savings Plan.

SECTION 20  
EFFECTIVE DATE OF PLAN

The effective date and date of adoption of the Plan shall be October 22 1997, the date adoption of the Plan was approved by the Board, provided that on or prior to October 21, 1998 such adoption of the Plan by the Board is approved by the affirmative vote of the holders of at least a majority of the shares of Common Stock represented in person or by proxy and entitled to vote at a duly called and convened meeting of such holders. Notwithstanding any other provision contained in the Plan, no stock option granted under the Plan may be exercised until after such stockholder approval. In the event stockholder approval of the Plan is not obtained on or before October 21, 1998, all amounts credited to the contribution accounts of participating employees, if any, shall be refunded to the participating employees.

SUBSIDIARIES OF  
WESTINGHOUSE AIR BRAKE COMPANY

COMPANY	JURISDICTION OF INCORPORATION	WABCO'S OWNERSHIP INTEREST
Allied Friction Products Australia Pty Ltd.	Australia	100%
Benn Iron Foundry Ltd.	Canada	100%
Cobra Europe S.A.	France	100%
Evand Pty Ltd.	Australia	100%
F.I.P. Pty Ltd.	Australia	100%
Greysham Railway Friction Products	India	65%
H.P. s.r.l.	Italy	100%
Pioneer Friction	India	51%
Railroad Friction Products Corporation	Delaware	100%
RFI Properties, Inc.	Delaware	100%
RFPC Holding Corporation	Delaware	100%
RFS (E) Limited	United Kingdom	100%
Stone Safety Service Corp	New Jersey	100%
Stone U.K.	United Kingdom	100%
Technical Service & Marketing	Delaware	100%
TFL, Inc.	Delaware	100%
ThermoSealed Castings Ltd.	Canada	100%
Vapor Canada Inc.	Canada	100%
Vapor Corporation	Delaware	100%
Vapor UK Limited	United Kingdom	100%
WABCO/MPI De Mexico, S. A. De C.V.	Mexico	51%
Westinghouse Railway (Canada), Ltd.	Canada	100%
Westinghouse Railway Holdings (Canada) Inc.	Canada	100%

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports, included in or incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8, Registration Numbers 33-80417 and 333-59441, Form S-8, Registration Number 333-53753, Form S-8, Registration Number 333-39159, and Form S-8, Registration Number 333-02979, included the Prospectuses therein, relating to the Company's 1995 Stock Incentive Plan, 1998 Employee Stock Purchase Plan, 1997 Executive Retirement Plan and 1995 Non-Employee Directors' Fee and Stock Option Plan. It should be noted that we have not audited any financial statements of the Company subsequent to December 31, 1998 or performed any audit procedures subsequent to the date of our report.

/s/ ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania  
March 23, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM WESTINGHOUSE AIR BRAKE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	(89,480)	
	596,184	
167,550		437,238
	0	0
		474
596,184	(34,327)	
		670,909
	670,909	
		451,730
	114,513	
	919	
	0	
	31,217	
	72,530	
	27,561	
44,969		
	0	
	(3,315)	0
	41,654	
	1.66	
	1.62	

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 11-K

(Mark One):

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 1998

or

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-13782

A. Full title of the plan and the address of the plan, if different from  
that of the issuer named below:

Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust

B. Name of issuer of the securities held pursuant to the plan and the address of  
the principal executive office:

Westinghouse Air Brake Company  
1001 Air Brake Avenue  
Wilmerding, PA 15148

The Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust is subject to the Employee Retirement Income Security Act of 1974. The required financial statements will be filed by amendment within the time prescribed by the rules of Form 11-K.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the ESOP Committee of Westinghouse Air Brake Company has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Westinghouse Air Brake Company  
Employee Stock Ownership Plan and  
Trust

By /s/ KEVIN P. CONNER

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Kevin P. Conner  
Member of the ESOP Committee

February 26, 1999