

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 1-13782

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1001 Air Brake Avenue
Wilmerding, PA
(Address of principal executive offices)

25-1615902
(I.R.S. Employer
Identification No.)

15148
(Zip Code)

412-825-1000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

Outstanding at November 7, 2006
48,996,775 shares

WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION
September 30, 2006 FORM 10-Q
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

<i>In thousands, except shares and par value</i>	Unaudited September 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 247,585	\$ 141,365
Accounts receivable	157,215	206,891
Inventories	135,893	110,873
Deferred income taxes	15,617	15,838
Other current assets	9,900	7,959
Total current assets	566,210	482,926
Property, plant and equipment	375,600	358,759
Accumulated depreciation	(215,394)	(197,158)
Property, plant and equipment, net	160,206	161,601
Other Assets		
Goodwill	118,698	118,181
Other intangibles, net	37,439	39,129
Deferred income taxes	18,523	18,428
Other noncurrent assets	9,185	16,092
Total other assets	183,845	191,830
Total Assets	\$ 910,261	\$ 836,357
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 78,752	\$ 93,551
Accrued income taxes	9,786	4,427
Customer deposits	77,536	71,098
Accrued compensation	25,099	25,274
Accrued warranty	19,194	16,158
Other accrued liabilities	27,308	30,971
Total current liabilities	237,675	241,479
Long-term debt	150,000	150,000
Reserve for postretirement and pension benefits	44,376	44,428
Deferred income taxes	7,585	7,381
Other long-term liabilities	8,700	13,862
Total liabilities	448,336	457,150
Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized, no shares issued	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized: 66,174,767 shares issued and 48,358,702 and 48,002,819 outstanding at September 30, 2006 and December 31, 2005, respectively.	662	662
Additional paid-in capital	313,033	294,209
Treasury stock, at cost, 17,816,065 and 18,171,948 shares, at September 30, 2006 and December 31, 2005, respectively	(228,290)	(225,483)
Retained earnings	393,739	336,744
Accumulated other comprehensive loss	(17,219)	(26,925)
Total shareholders' equity	461,925	379,207
Total Liabilities and Shareholders' Equity	\$ 910,261	\$ 836,357

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

The accompanying notes are an integral part of these statements.

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

1. BUSINESS

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 90 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 11 countries. In the first nine months of 2006, about 34 percent of the Company's revenues came from outside the U.S.

2. ACCOUNTING POLICIES

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

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

The notes included herein should be read in conjunction with the audited consolidated financial statements included in Wabtec's Annual Report on Form 10-K for the year ended December 31, 2005. The December 31, 2005 information has been derived from the Company's December 31, 2005 Annual Report on Form 10-K.

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

The Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts.

Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were \$6.1 million and \$4.9 million at September 30, 2006 and December 31, 2005, respectively.

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

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

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

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

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

Stock-Based Plans Stock options have been granted at not less than market prices on the dates of grant. Generally, the options become exercisable over a three-year vesting period and expire 10 years from the date of grant. In January 2006, Wabtec granted 32,000 stock options to certain individuals. The Company has now adopted a non-vested stock plan and issued 200,500 awards to executives in February 2006. The non-vested stock generally vests over four years from the date of grant. In addition, the Company established in 2004, a stock-based incentive plan for eligible employees. The plan provides stock awards which vest upon attainment of certain three year performance targets. Wabtec also sponsors an employee stock purchase plan, whereby participants can purchase the Company’s common stock at a discount of about 15% of the lesser of fair market value on the first or last day of each offering period.

Stock based compensation was \$7.7 million and \$1.6 million for the nine months ended September 30, 2006 and 2005, respectively. The accounting for the non-vested stock and the stock awards under the incentive plan was not impacted significantly by the adoption of FAS 123(R). In addition, compensation expense of \$849,000 was recorded for the nine months ended September 30, 2006 related to the expensing of stock options in accordance with FAS 123(R). At September 30, 2006, unamortized compensation expense related to those stock options, non-vested shares and stock awards expected to vest totaled \$12.9 million and will be recognized over a weighted average period of 1.5 years.

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

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three and nine months ended September 30,	
	2006	2005
Dividend yield	.3%	.3%
Risk-free interest rate	4.21%	4.5%
Stock price volatility	43.3	43.9
Expected life (years)	5.0	5.0

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

The following table summarizes the stock option activity and related information for the period indicated:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate intrinsic value (in thousands)
Beginning of year—January 1, 2006	2,204,065	\$ 13.98		\$ 28,477
Granted	32,000	26.66		344
Exercised	(796,306)	15.44		13,677
Canceled	(3,334)	16.33		66
Year to date—September 30, 2006	<u>1,436,425</u>	<u>\$ 13.44</u>	<u>5.9</u>	<u>\$ 19,665</u>
Exercisable	<u>1,162,373</u>	<u>\$ 12.32</u>	<u>5.5</u>	<u>\$ 17,215</u>
Weighted average fair value of options granted during 2006	<u>\$ 11.19</u>			

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

	Non- Vested Stock	Stock Awards	Weighted Average FMV
Outstanding at January 1, 2006	—	518,666	\$ 15.83
Granted	200,500	187,000	34.06
Canceled	(3,000)	(4,000)	23.16
Outstanding at September 30, 2006	<u>197,500</u>	<u>701,666</u>	<u>\$ 23.63</u>

As of September 30, 2006, stock awards issued under the incentive plan are awarded but not vested. These stock awards will vest based upon the achievement of certain financial goals for each three year periods ending December 31, 2006, 2007 and 2008, respectively. The stock awards included in the table above represent the maximum number of shares that may ultimately vest. As of September 30, 2006, based on the Company's performance, we estimate that the majority of these stock awards will vest and have recorded compensation expense accordingly. If our estimate of the number of these stock awards expected to vest changes in a future accounting period, compensation expense could be reduced and will be recognized over the remaining vesting period.

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

Financial Derivatives and Hedging Activities The Company has entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with counterparty to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date the Company can either take delivery of the currency or settle on a net basis. All outstanding forward contracts are for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). As of September 30, 2006, the Company had forward contracts with a notional value of \$15.0 million CAD (or \$12.6 million U.S.), with an average exchange rate of \$.84 USD per \$1 CAD, resulting in the recording of a current asset and an increase in comprehensive income of \$732,000, net of tax.

Foreign Currency Translation Assets and liabilities of foreign subsidiaries, except for the Company's Mexican operations whose functional currency is the U.S. Dollar, are translated at the rate of exchange in effect on the balance sheet date while income and expenses are translated at the average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from transactions, and the translation of financial statements are recorded in the Company's consolidated financial statements based upon the provisions of SFAS No. 52, "Foreign Currency Translation." The effects of currency exchange rate changes on intercompany transactions and balances of a long-term investment nature are accumulated and carried as a component of shareholders' equity. The effects of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts are charged or credited to earnings. Foreign exchange loss was \$124,000 and \$1.5 million for the three months ended September 30, 2006 and 2005, respectively, and \$1.1 million and \$3.1 million for the nine months ended September 30, 2006 and 2005, respectively.

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

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

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

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

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

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

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

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R),” (SFAS 158). SFAS 158 requires an employer to recognize the funded status of each of its defined pension and postretirement benefit plans as a net asset or liability in its statement of financial position with an offsetting amount in accumulated other comprehensive income, and to recognize changes in that funded status in the year in which changes occur through comprehensive income. This requirement becomes effective for the Company for its December 31, 2006 year-end. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented will not be restated. The Company is currently evaluating the impact of this pronouncement on its statement of financial position.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157 becomes effective for Wabtec on January 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. The adoption of SFAS 157 is not expected to have a material impact on the Company’s consolidated financial statements.

3. ACQUISITIONS AND DISCONTINUED OPERATIONS

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

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

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

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

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

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

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

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net sales	\$ —	\$2,607	\$ 2,600	\$8,942
Loss before income taxes	(373)	(617)	(870)	(364)
Income tax income (expense)	3	(197)	(159)	67
Loss from discontinued operations	\$(370)	\$ (420)	\$(1,029)	\$ (297)

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

4. INVENTORIES

The components of inventory, net of reserves, were:

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

5. RESTRUCTURING AND IMPAIRMENT CHARGES

On July 19, 2006, the Board of Directors approved a restructuring plan to improve the profitability and efficiency of certain business units. As part of the plan, Wabtec downsized two of its Canadian plants, in Stoney Creek and Wallaceburg, by moving certain products to lower-cost facilities and outsourcing. Wabtec recorded expenses of \$6.8 million in the 2006 third quarter for restructuring and other expenses, as a result of the approval of this plan. These expenses were comprised of the following components: \$1.5 million for employee severance

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

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

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

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

6. INTANGIBLES

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

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

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

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

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

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

7. LONG-TERM DEBT

Long-term debt consisted of the following:

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

Refinancing Credit Agreement

In January 2004, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This “Refinancing Credit Agreement” provided a \$175 million five-year revolving credit facility expiring in January 2009. In November 2005, the Company entered into an amendment to the Refinancing Credit Agreement which, among other things, extended the expiration of the agreement until December 2010. At September 30, 2006, the Company had available borrowing capacity, net of \$23.7 million of letters of credit, of approximately \$151.3 million, subject to certain financial covenant restrictions.

Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. The Company did not borrow under the Refinancing Credit Agreement during the nine months ended September 30, 2006 or during the year ended December 31, 2005.

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

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

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The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and “change of control” of the Company. The Refinancing Credit Agreement includes the following covenants: a minimum interest coverage ratio of three, maximum debt to cash flow ratio of 3.25 and a minimum net worth of \$180 million plus 50% of consolidated net income since September 30, 2003. The Company is in compliance with these measurements and covenants.

6⁷/₈% Senior Notes Due August 2013

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

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

On July 31, 2006, the Board of Directors authorized the repurchase of up to \$50 million of the Company’s outstanding shares. The Company intends to purchase these shares on the open market or in negotiated or block trades. No time limit was set for the completion of the program which is permitted under the Refinancing Credit Agreement, as well as the 6⁷/₈% Senior Notes currently outstanding. During the third quarter 2006, 502,400 shares were repurchased at an average price of \$26.90 per share.

8. EMPLOYEE BENEFIT PLANS

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

<i>In thousands, except percentages</i>	Pension Plans		Postretirement Plan	
	Three months ended		Three months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Net periodic benefit cost				
Service cost	\$ 1,092	\$ 805	\$ 325	\$ 229
Interest cost	2,008	1,957	656	595
Expected return on plan assets	(2,182)	(1,978)	—	—
Net amortization/deferrals	922	734	273	155
Net periodic benefit cost	<u>\$ 1,840</u>	<u>\$ 1,518</u>	<u>\$ 1,254</u>	<u>\$ 979</u>
Assumptions				
Discount rate	5.21%	5.94%	5.43%	6.19%
Expected long-term rate of return	6.96%	7.25%	NA	NA
Rate of compensation increase	3.38%	4.01%	NA	NA

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<i>In thousands, except percentages</i>	Pension Plans		Postretirement Plan	
	Nine months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Net periodic benefit cost				
Service cost	\$ 3,245	\$ 2,452	\$ 973	\$ 705
Interest cost	5,975	5,860	1,966	1,801
Expected return on plan assets	(6,494)	(5,936)	—	—
Net amortization/deferrals	2,750	2,636	816	637
Net periodic benefit cost	<u>\$ 5,476</u>	<u>\$ 5,012</u>	<u>\$3,755</u>	<u>\$3,143</u>
Assumptions				
Discount rate	5.21%	5.94%	5.43%	6.18%
Expected long-term rate of return	6.96%	7.24%	NA	NA
Rate of compensation increase	3.38%	4.02%	NA	NA

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

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

9. INCOME TAXES

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

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10. EARNINGS PER SHARE

The computation of earnings per share is as follows:

<i>In thousands, except per share</i>	Three Months Ended September 30,	
	2006	2005
Basic earnings per share		
Income from continuing operations applicable to common shareholders	\$17,741	\$15,496
Divided by		
Weighted average shares outstanding	48,689	47,574
Basic earnings from continuing operations per share	<u>\$ 0.36</u>	<u>\$ 0.33</u>
Diluted earnings per share		
Income from continuing operations applicable to common shareholders	\$17,741	\$15,496
Divided by sum of the		
Weighted average shares outstanding	48,689	47,574
Conversion of dilutive stock options / non-vested stock	604	737
Diluted shares outstanding	49,240	48,311
Diluted earnings from continuing operations per share	<u>\$ 0.36</u>	<u>\$ 0.32</u>

<i>In thousands, except per share</i>	Nine Months Ended September 30,	
	2006	2005
Basic earnings per share		
Income from continuing operations applicable to common shareholders	\$59,591	\$39,772
Divided by		
Weighted average shares outstanding	48,309	46,664
Basic earnings from continuing operations per share	<u>\$ 1.23</u>	<u>\$ 0.85</u>
Diluted earnings per share		
Income from continuing operations applicable to common shareholders	\$59,591	\$39,772
Divided by sum of the		
Weighted average shares outstanding	48,309	46,664
Conversion of dilutive stock options / non-vested stock	596	745
Diluted shares outstanding	48,905	47,409
Diluted earnings from continuing operations per share	<u>\$ 1.22</u>	<u>\$ 0.84</u>

11. WARRANTIES

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

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

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12. COMMITMENTS AND CONTINGENCIES

Claims have been filed against the Company and certain of its affiliates in various jurisdictions across the United States by persons alleging bodily injury as a result of exposure to asbestos-containing products. Since 2000, the number of such claims has increased and the resolution of these claims may take a significant period of time. Most of these claims have been made against our wholly owned subsidiary, Railroad Friction Products Corporation (RFPC), and are based on a product sold by RFPC prior to the time that the Company acquired any interest in RFPC. On April 17, 2005, a claim against the Company by a former stockholder of RFPC contending that the Company assumed that entity's liability for asbestos claims arising from exposure to RFPC's product was resolved in the Company's favor.

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

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

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

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

In April 2005, Amtrak decided to suspend its Acela Express train service due to cracks in the spokes of some of the cars' brake discs. Amtrak's Acela service was resumed on a limited basis in July, 2005, and complete service was resumed in September, 2005. Wabtec did not design or supply the braking system for the Acela cars. The braking system was supplied by Knorr Brake Corporation and the brake discs were designed by

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Faiveley Transport. Wabtec did provide and machine approximately one-third of the brake discs for the cars and assisted Amtrak and others, including Bombardier Corporation, Alstom Transportation Inc., Knorr and Faiveley, in their evaluation and investigation of the brake disc cracks.

On July 11, 2005 Wabtec received a written notice of a potential claim for damages from Knorr and on March 2, 2006 received a notice from Knorr in which Knorr stated that Amtrak is of the view that it may have warranty claims against Wabtec, Knorr, and Faiveley. Neither Knorr notice specified any amount or range of claims against the Company, although Knorr has indicated that it expects the Company to participate in any financial settlement arising from the alleged defects and failures of the Acela brake discs. Wabtec, in turn, has forwarded Knorr's notices to Faiveley and has notified Faiveley of potential claims by Wabtec against Faiveley.

In a presentation provided to Wabtec and Faiveley on August 22, 2006, Bombardier claimed that it has reached a settlement with Amtrak and Knorr related to the suspension of Amtrak's Acela service. Bombardier has alleged that it has incurred damages of approximately \$38 million, and has been assigned the rights to pursue additional claims by Amtrak and Knorr of approximately \$17 million and \$10 million, respectively. Wabtec has contacted Faiveley, asserting that Faiveley is fully responsible for any claims made by Bombardier, including the assigned claims of Amtrak and Knorr. Wabtec does not believe that it has any material legal liability with regard to this matter.

In March 2006, management began an internal investigation related to business transactions conducted by a subsidiary, Pioneer Friction Limited ("Pioneer"), in West Bengal, India. Through an internal compliance review, management discovered that disbursements were made which may be in violation of applicable laws and regulations. Pioneer is a fourth-tier subsidiary of Wabtec; two of the intermediate subsidiaries are Australian companies which are, in turn, owned by a U.S. holding company.

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

The Company is subject to a number of other commitments and contingencies as described in its Annual Report on Form 10-K for the Year Ended December 31, 2005, filed on March 16, 2006. During the first nine months of 2006, there were no material changes other than what is discussed above to the information described in Note 18 therein.

13. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<i>In thousands</i>	Three Months Ended September 30,	
	2006	2005
Brake Products	\$ 89,681	\$ 89,029
Freight Electronics & Specialty Products	87,061	85,036
Remanufacturing, Overhaul & Build	57,350	50,013
Transit Products	25,109	25,844
Other	9,688	5,748
Total Sales	<u>\$ 268,889</u>	<u>\$ 255,670</u>

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

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

14. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION

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

Balance Sheet as of September 30, 2006:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash	\$ 167,020	\$ (5,283)	\$ 85,848	\$ —	\$ 247,585
Accounts Receivable	3,398	100,604	53,213	—	157,215
Inventories	—	88,590	47,303	—	135,893
Other Current Assets	19,137	3,437	2,943	—	25,517
Total Current Assets	189,555	187,348	189,307	—	566,210
Net Property, Plant and Equipment	2,910	92,631	64,665	—	160,206
Goodwill	7,980	76,727	33,991	—	118,698
Investment in Subsidiaries	907,242	155,202	24,755	(1,087,199)	—
Intangibles	8,801	23,969	4,669	—	37,439
Other Long Term Assets	12,474	1,611	13,623	—	27,708
Total Assets	\$1,128,962	\$ 537,488	\$ 331,010	\$ (1,087,199)	\$ 910,261
Current Liabilities	\$ 10,733	\$ 164,000	\$ 62,942	\$ —	\$ 237,675
Intercompany	459,401	(487,631)	28,230	—	—
Long-Term Debt	150,000	—	—	—	150,000
Other Long Term Liabilities	46,903	3,719	10,039	—	60,661
Total Liabilities	667,037	(319,912)	101,211	—	448,336
Stockholders' Equity	461,925	857,400	229,799	(1,087,199)	461,925
Total Liabilities and Stockholders' Equity	\$1,128,962	\$ 537,488	\$ 331,010	\$ (1,087,199)	\$ 910,261

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Balance Sheet as of December 31, 2005:

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

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

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net Sales	\$ —	\$ 204,958	\$ 86,550	\$ (22,619)	\$ 268,889
Cost of Sales	737	(154,565)	(68,631)	19,768	(202,691)
Gross Profit (Loss)	737	50,393	17,919	(2,851)	66,198
Operating Expenses	(8,522)	(23,609)	(8,592)	—	(40,723)
Operating Profit (Loss)	(7,785)	26,784	9,327	(2,851)	25,475
Interest (Expense) Income	(3,823)	3,429	590	—	196
Other (Expense) Income	(1,740)	2,210	(609)	—	(139)
Equity Earnings	32,515	(4,719)	—	(27,796)	—
Income (Loss) From Continuing Operations Before Income Taxes	19,167	27,704	9,308	(30,647)	25,532
Income Tax Benefit (Expense)	(1,482)	(3,432)	(2,877)	—	(7,791)
Income (Loss) From Continuing Operations	17,685	24,272	6,431	(30,647)	17,741
Discontinued Operations	(314)	—	(56)	—	(370)
Net Income (Loss)	\$17,371	\$ 24,272	\$ 6,375	\$ (30,647)	\$ 17,371

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

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

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

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

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

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

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net Sales	\$ —	\$ 599,330	\$ 282,824	\$ (88,954)	\$ 793,200
Cost of Sales	1,025	(425,799)	(226,550)	76,153	(575,171)
Gross Profit (Loss)	1,025	173,531	56,274	(12,801)	218,029
Operating Expenses	(34,500)	(64,608)	(25,777)	—	(124,885)
Operating Profit (Loss)	(33,475)	108,923	30,497	(12,801)	93,144
Interest (Expense) Income	(12,490)	9,551	1,591	—	(1,348)
Other (Expense) Income	(1,763)	2,991	(2,513)	—	(1,285)
Equity Earnings	116,084	(9,863)	—	(106,221)	—
Income (Loss) From Continuing Operations Before Income Taxes	68,356	111,602	29,575	(119,022)	90,511
Income Tax Benefit (Expense)	(9,756)	(11,444)	(9,720)	—	(30,920)
Income (Loss) From Continuing Operations	58,600	100,158	19,855	119,022)	59,591
Discontinued Operations	(38)	—	(991)	—	(1,029)
Net Income (Loss)	<u>\$ 58,562</u>	<u>\$ 100,158</u>	<u>\$ 18,864</u>	<u>\$ (119,022)</u>	<u>\$ 58,562</u>

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

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

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

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

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

Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2006:

<i>In thousands</i>	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Net Cash Provided by (Used in) Operating Activities	\$ 76,656	\$ 106,172	\$ 46,102	\$(119,022)	\$ 109,908
Net Cash (Used in) Provided by Investing Activities	(524)	(8,539)	(750)	—	(9,813)
Net Cash Provided by (Used in) Financing Activities	2,989	(100,158)	(18,864)	119,022	2,989
Effect of Changes in Currency Exchange Rates	—	—	3,136	—	3,136
Increase (Decrease) in Cash	79,121	(2,525)	29,624	—	106,220
Cash at Beginning of Period	87,899	(2,758)	56,224	—	141,365
Cash at End of Period	<u>\$167,020</u>	<u>\$ (5,283)</u>	<u>\$ 85,848</u>	<u>\$ —</u>	<u>\$ 247,585</u>

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

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

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

15. OTHER EXPENSE

The components of other expense are as follows:

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

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Technologies Corporation's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its 2005 Annual Report on Form 10-K, filed March 16, 2006.

OVERVIEW

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 90 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 11 countries. In the first nine months of 2006, about 34 percent of the Company's revenues came from outside the U.S.

Management Review and Outlook

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

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

	<u>Orders</u>	<u>Deliveries</u>	<u>Backlog*</u>
First quarter 2004	17,962	10,012	42,242
Second quarter 2004	19,770	10,071	51,446
Third quarter 2004	20,315	11,790	61,052
Fourth quarter 2004	12,244	14,419	58,677
	<u>70,291</u>	<u>46,292</u>	
First quarter 2005	17,563	15,781	59,416
Second quarter 2005	19,132	17,914	60,544
Third quarter 2005	17,439	16,987	60,986
Fourth quarter 2005	26,569	17,975	69,408
	<u>80,703</u>	<u>68,657</u>	
First quarter 2006	35,991	18,542	86,857
Second quarter 2006	18,190	19,466	85,692
Third quarter 2006	21,466	19,008	88,116

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

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

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

Carloadings Originated (in thousands):

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

Intermodal Units Originated (in thousands):

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

Source: Association of American Railroads—Weekly Rail Traffic

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

- Global and Market Expansion;
- Aftermarket Products and Services;
- New Products and Technologies; and
- Acquisitions.

In 2006 and beyond, we will continue to face many challenges, including increased costs for raw materials, especially steel; higher costs for medical and insurance premiums; and foreign currency fluctuations. In addition, we face general economic risks, as well as the risk that our customers could curtail spending on new and existing equipment. Risks associated with our four-point growth strategy include the level of investment that customers are willing to make in new technologies developed by the industry and the Company, and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and risks.

On July 19, 2006, the Board of Directors approved a restructuring plan to improve the profitability and efficiency of certain business units. As part of the plan, Wabtec downsized two of its Canadian plants, in Stoney Creek and Wallaceburg, by moving certain products to lower-cost facilities and outsourcing. Wabtec recorded expenses of \$6.8 million in the 2006 third quarter for restructuring and other expenses, as a result of the approval of this plan. These expenses were comprised of the following components: \$1.5 million for employee severance costs associated with approximately 240 salaried and hourly employees located at our Wallaceburg and Stoney Creek locations; \$2.0 million of pension curtailment for those employees; \$2.9 million related to asset impairments for structures, machinery, and equipment; and \$540,000 for goodwill impairment specific to the Wallaceburg facility. As of September 30, 2006, the employees associated with the restructuring program had been terminated and none of the severance has been paid. Severance costs are contractual liabilities and payment is dependent on the waiver by or expiration of certain seniority rights of those employees.

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

RESULTS OF OPERATIONS

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

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net sales	\$ 268.9	\$ 255.7	\$ 793.2	\$ 763.8
Cost of sales	(202.7)	(188.7)	(575.2)	(573.6)
Gross profit	66.2	67.0	218.0	190.2
Selling, general and administrative expenses	(31.2)	(30.8)	(97.6)	(90.5)
Engineering expenses	(8.1)	(8.0)	(24.2)	(24.8)
Amortization expense	(1.4)	(0.9)	(3.1)	(3.0)
Total operating expenses	(40.7)	(39.7)	(124.9)	(118.3)
Income from operations	25.5	27.3	93.1	71.9
Interest income (expense), net	0.1	(2.2)	(1.3)	(6.9)
Other expense, net	(0.1)	(1.3)	(1.3)	(3.0)
Income from continuing operations before income taxes	25.5	23.8	90.5	62.0
Income tax expense	(7.8)	(8.3)	(30.9)	(22.2)
Income from continuing operations	17.7	15.5	59.6	39.8
Discontinued operations	(0.3)	(0.4)	(1.0)	(0.3)
Net income	\$ 17.4	\$ 15.1	\$ 58.6	\$ 39.5

THIRD QUARTER 2006 COMPARED TO THIRD QUARTER 2005

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

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

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

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

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

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

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

Gross profit Gross profit decreased to \$66.2 million in the third quarter of 2006 compared to \$67.0 million in the same period of 2005. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. In the third quarter of 2006, gross profit, as a percentage of sales, was 24.6% compared to 26.2% in 2005. The restructuring plan charges impacted gross margin, with \$6.3 million being recorded in cost of sales. Gross profit, as a percentage of sales, excluding these charges, would have been 27.0%, which improvement is due to a variety of factors including improved performance of a locomotive module contract which was profitable in the third quarter compared to a loss in the prior year same periods. For the three months ended September 30, 2006, the locomotive module contract overall improvement was \$2.1 million from the losses realized in the prior year. The remaining improvement is due to cost savings realized from sourcing raw materials from lower cost suppliers, reduced labor costs, and continuing improvements in our manufacturing processes.

The provision for warranty expense was \$1.8 million higher for the third quarter of 2006 compared to the same period in the prior year, which negatively impacted gross profit. The most significant reason for the increase is due to specific reserves related to certain transit door components of \$1.4 million being recognized for our North America operations. In general, reserves, which are established based on historical claims as a percentage of revenue, were higher for the locomotive manufacture and overhaul business unit. Sales have increased resulting in a higher reserve compared to prior quarter. Overall, our warranty reserve increased at September 30, 2006 compared to September 30, 2005 by \$3.4 million as reserves were established before claims were paid related to specific and general provisions discussed above.

Operating expenses The following table shows our operating expenses:

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

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

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

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

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

Other income (expense), net The Company recorded a foreign exchange loss of \$124,000 and \$1.4 million, in the three months ended September 30, 2006 and 2005, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts and charged or credited to earnings.

Income taxes The effective income tax rate was 30.5% and 34.9% for the third quarter of 2006 and 2005, respectively. During the third quarter of 2006, approximately \$1.4 million of tax benefit was recognized related to the release of tax contingency reserves as the result of the closure of open tax years as well as settlements reached with taxing authorities.

Net income Net income for the third quarter of 2006 increased \$2.3 million, compared with the same period of 2005. This increase is the result of higher sales, decreased interest expense, net, decreased foreign exchange loss, and lower income taxes, offset by decreased gross margin because of the \$6.8 million restructuring charge and higher operating costs specific to the adoption of SFAS 123(R).

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

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

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

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

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

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

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

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

Gross profit Gross profit increased to \$218.0 million for the first nine months of 2006 compared to \$190.2 million in the same period of 2005. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. In the first nine months of 2006, gross profit, as a percentage of sales, was 27.5% compared to 24.9% in 2005. In the third quarter of 2006, restructuring plan expense of \$6.3 million were recorded in cost of sales. 2006 gross profit, as a percentage of sales, excluding these charges, would have been 28.3%, which improvement is due to a variety of factors including improved performance of a locomotive module contract which was profitable for the first nine months of 2006 compared to a loss in the prior year same periods. Also, in the first nine months of 2005, the Company recorded \$2.3 million in restructuring and asset impairment charges related to consolidating two U.K. facilities into one, relocating a product line from Canada to the U.S., and completion of a data center migration. 2005 gross profit, as a percentage of sales, excluding these charges, would have been 25.2%. The remaining improvement is due to cost savings realized from sourcing raw materials from lower cost suppliers, reduced labor costs, and continuing improvements in our manufacturing processes.

The provision for warranty expense was \$4.2 million higher for the nine months of 2006 compared to the same period in the prior year, which negatively impacted gross profit. The most significant reason for the increase is due to specific reserves related to certain transit door components of \$1.4 million being recognized for North America operations; and other freight components and electronic products. In general, reserves, which are established based on historical claims as a percentage of revenue, were higher for the locomotive manufacture and overhaul business unit, due to higher sales in that unit. Sales have increased resulting in a higher reserve compared to prior period. Overall, our warranty reserve increased at September 30, 2006 compared to September 30, 2005 by \$3.4 million as reserves were established before claims were paid related to specific provisions discussed above.

Operating expenses The following table shows our operating expenses:

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

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

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

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

Other income (expense), net The Company recorded a foreign exchange loss of \$1.1 million and \$3.1 million in the nine months ended September 30, 2006 and 2005, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts and charged or credited to earnings.

Income taxes The effective income tax rate was 34.2% and 35.8% for the first nine months of 2006 and 2005, respectively. During the third quarter of 2006, approximately \$1.4 million of tax benefit was recognized related to the release of tax contingency reserves.

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

Liquidity and Capital Resources

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

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

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

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

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

Financing activities In the first nine months of 2006 and 2005, cash provided by financing activities was \$3.0 million and \$18.1 million, respectively. The cash provided in 2006 included \$13.6 million of proceeds from the exercise of stock options and other benefit plans, offset by \$1.5 million of dividend payments and \$13.5 million for the repurchase of 502,400 shares of stock. The cash provided in 2005 included \$19.6 million of proceeds from the exercise of stock options and other benefit plans, offset by \$1.4 million of dividend payments.

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

<i>In thousands</i>	September 30, 2006	December 31, 2005
6.875% Senior notes due 2013	\$ 150,000	\$ 150,000
Total	\$ 150,000	\$ 150,000
Less-current portion	—	—
Long-term portion	\$ 150,000	\$ 150,000

Cash balance at September 30, 2006 and December 31, 2005 was \$247.6 million and \$141.4 million, respectively.

Refinancing Credit Agreement

In January 2004, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This "Refinancing Credit Agreement" provided a \$175 million five-year revolving credit facility expiring in January 2009. In November 2005, the Company entered into an amendment to the Refinancing Credit Agreement which, among other things, extended the expiration of the agreement until December 2010. At September 30, 2006, the Company had available bank borrowing capacity, net of \$23.7 million of letters of credit, of approximately \$151.3 million, subject to certain financial covenant restrictions.

Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. The Company did not borrow under the Refinancing Credit Agreement during the nine months ended September 30, 2006 or during the year ended December 31, 2005.

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

The Refinancing Credit Agreement limits the Company's ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The Refinancing Credit Agreement contains various other covenants and restrictions including the following

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limitations: incurrence of additional indebtedness; mergers, consolidations and sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; capital expenditures; and imposes a minimum interest expense coverage ratio and a maximum debt to cash flow ratio.

The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and “change of control” of the Company. The Refinancing Credit Agreement includes the following covenants: a minimum interest coverage ratio of three, maximum debt to cash flow ratio of 3.25 and a minimum net worth of \$180 million plus 50% of consolidated net income since September 30, 2003. The Company is in compliance with these measurements and covenants.

6⁷/₈% Senior Notes Due August 2013

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

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

On July 31, 2006, the Board of Directors authorized the repurchase of up to \$50 million of the Company’s outstanding shares. The Company intends to purchase these shares on the open market or in negotiated or block trades. No time limit was set for the completion of the program which is permitted under the Refinancing Credit Agreement, as well as the 6⁷/₈% Senior Notes currently outstanding. During the third quarter 2006, 502,400 shares were repurchased at an average price of \$26.90 per share.

Forward Looking Statements

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

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

Economic and industry conditions

- materially adverse changes in economic or industry conditions generally or in the markets served by us, including North America, South America, Europe, Australia and Asia;
- demand for freight cars, locomotives, passenger transit cars, buses and related products and services;
- reliance on major original equipment manufacturer customers;
- original equipment manufacturers’ program delays;

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- demand for services in the freight and passenger rail industry;
- demand for our products and services;
- orders either being delayed, cancelled, not returning to historical levels, or reduced or any combination of the foregoing;
- consolidations in the rail industry;
- continued outsourcing by our customers; industry demand for faster and more efficient braking equipment; or
- fluctuations in interest rates and foreign currency exchange rates;

Operating factors

- supply disruptions;
- technical difficulties;
- changes in operating conditions and costs;
- increases in raw material costs;
- successful introduction of new products;
- performance under material long-term contracts;
- labor relations;
- completion and integration of acquisitions; or
- the development and use of new technology;

Competitive factors

- the actions of competitors;

Political/governmental factors

- political stability in relevant areas of the world;
- future regulation/deregulation of our customers and/or the rail industry;
- levels of governmental funding on transit projects, including for some of our customers;
- political developments and laws and regulations; or
- the outcome of our existing or any future legal proceedings, including litigation involving our principal customers and any litigation with respect to environmental, asbestos-related matters and pension liabilities; and

Transaction or commercial factors

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

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

Critical Accounting Policies

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

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

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

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

Stock based compensation was \$7.7 million and \$1.6 million for the nine months ended September 30, 2006 and 2005, respectively. The primary reason for the increase in stock based compensation expense between years is the issuance of shares in 2006 under a non-vested stock plan and increased expense under a stock based incentive plan as a result of the improved performance of the Company. The accounting for the non-vested stock and the stock awards under the incentive plan was not impacted significantly by the adoption of FAS 123(R). In addition, compensation expense of \$849,000 was recorded for the nine months ended September 30, 2006 related to the expensing of stock options in accordance with FAS 123(R).

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

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

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

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

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

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

Recent Accounting Pronouncements

See Notes 2 and 6 of “Notes to Condensed Consolidated Financial Statements” included elsewhere in this report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

In the ordinary course of business, Wabtec is exposed to risks that increases in interest rates may adversely affect funding costs associated with its variable-rate debt. There was no outstanding variable-rate debt at September 30, 2006.

Foreign Currency Exchange Risk

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

The Company entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with a counterparty to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date we can either take delivery of the currency or settle on a net basis. All outstanding forward contracts and option agreements are for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). As of September 30, 2006, the Company has forward contracts with a notional value of \$15.0 million CAD (or \$12.6 million U.S.), with an average exchange rate of \$0.84 USD per \$1 CAD, resulting in the recording of a current asset and an increase in comprehensive income of \$732,000 net of tax.

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

Item 4. CONTROLS AND PROCEDURES

Wabtec’s principal executive officer and its principal financial officer have evaluated the effectiveness of Wabtec’s “disclosure controls and procedures,” (as defined in Exchange Act Rule 13a-15(e)) as of September 30, 2006. Based upon their evaluation, the principal executive officer and principal financial officer concluded that Wabtec’s disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by Wabtec in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to provide reasonable assurance that information required to be disclosed by Wabtec in such reports is accumulated and communicated to Wabtec’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in Wabtec’s “internal control over financial reporting” (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, Wabtec’s internal control over financial reporting.

PART II—OTHER INFORMATION**Item 1. LEGAL PROCEEDINGS AND COMMITMENTS AND CONTINGENCIES**

Except as disclosed in Note 12 of the Company's Notes to Condensed Consolidated Financial Statements for the Quarterly Period Ended September 30, 2006, there have been no other material changes to report regarding the Company's commitments and contingencies as described in Note 18 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 2005.

Item 1A. RISK FACTORS

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

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

<i>Period</i>	Total Number of Shares Purchased	Average Price Paid per Share	Number of Shares Purchased for Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased
July 2, 2006 to July 29, 2006	—	\$ —	—	\$ 50,000,000
July 30, 2006 to August 26, 2006	—	—	—	50,000,000
August 27, 2006 to September 30, 2006	502,400	26.90	502,400	43,347,705
Total	502,400	\$ 26.90	502,400	43,347,705

On July 31, 2006, the Board of Directors authorized the repurchase of up to \$50 million of the Company's outstanding shares. The Company intends to purchase these shares on the open market or in negotiated or block trades. No time limit was set for the completion of the program which qualifies under the Refinancing Credit Agreement, as well as the 6^{7/8}% Senior Notes currently outstanding. During the third quarter 2006, 502,400 shares were repurchased at an average price of \$26.90 per share.

Item 6. EXHIBITS

The following exhibits are being filed with this report:

- 3.1 Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995, filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866), and incorporated herein by reference.
- 3.2 Amended and Restated By-Laws of the Company, dated as of January 6, 2006, filed as an exhibit to Form 8-K filed on January 9, 2006.
- 10.1 Stock Purchase Agreement dated October 6, 2006 by and among the shareholders of Schaefer Manufacturing, Inc., Wabtec Holding Corporation, and CCP Limited Partnership.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description and Method of Filing
3.1	Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995, filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866), and incorporated herein by reference.
3.2	Amended and Restated By-Laws of the Company, dated as of January 6, 2006, filed as an exhibit to Form 8-K filed on January 9, 2006.
10.1	Stock Purchase Agreement dated October 6, 2006 by and among the shareholders of Schaefer Manufacturing, Inc., Wabtec Holding Corporation, and CCP Limited Partnership.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

STOCK PURCHASE AGREEMENT

BY AND AMONG

THE SHAREHOLDERS OF
SCHAEFER MANUFACTURING, INC.,

WABTEC HOLDING CORPORATION

and

CCP LIMITED PARTNERSHIP, AS SELLERS' AGENT

AS OF OCTOBER 6, 2006

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT is made as of October 6, 2006, by and among the shareholders of **SCHAEFER MANUFACTURING, INC.**, a Wisconsin corporation (the "Company") identified on Schedule A attached hereto (the "Sellers"), **WABTEC HOLDING CORPORATION**, a Delaware corporation (the "Purchaser"), and **CCP LIMITED PARTNERSHIP**, a Wisconsin limited partnership, in its capacity as Sellers' Agent pursuant to the terms and conditions hereof (the "Sellers' Agent").

RECITALS

A. Sellers own as of Closing all of the issued and outstanding shares of capital stock of the Company and, in turn, the Company owns as of Closing all of the issued and shares of capital stock of Schaefer Equipment, Inc., an Ohio corporation ("Equipment Co.").

B. Sellers wish to sell the Shares to Purchaser, and Purchaser wishes to purchase the Shares from Sellers, on the terms and conditions set forth in this Agreement.

AGREEMENTS

In consideration of the recitals and of the mutual agreements, provisions and covenants set forth below, the Parties agree as follows:

1. DEFINITIONS. For purposes of this Agreement, the following definitions shall apply:

"AAA" shall mean the American Arbitration Association.

"Accounts Receivable" shall have the meaning specified in Section 3.24 of this Agreement.

"Agreement" shall mean this Stock Purchase Agreement.

"Ancillary Agreements" shall mean the agreements, documents and instruments related to this Agreement to which Purchaser, the Company or any Seller is a party.

"Annual Financial Statements" shall mean the audited consolidated financial statements of the Company and its Subsidiaries for their 2004 and 2005 fiscal years, copies of which have been provided by Sellers to Purchaser.

"Base Amount" shall have the meaning specified in Section 2.2 of this Agreement.

"Basket Amount" shall have the meaning specified in Section 9.3(d)(i) of this Agreement.

"Benefit Plans" shall mean any employee benefit plan as that term is defined in ERISA Sections 3(1), (2), (3), (37) and (40), and each pension plan, profit sharing plan, stock bonus plan, incentive compensation plan, incentive bonus plan, stock ownership plan, stock

purchase plan, stock option plan, stock appreciation plan, employee benefit plan, employee benefit policy, retirement plan, fringe benefit program, employee insurance plan, severance plan, disability plan, health care plan, sick leave plan, death benefit plan or any other plan or program to provide retirement income, fringe benefits or other benefits for former or current employees or directors of any Schaefer Company, to which any Schaefer Company currently contributes or has an obligation to contribute in the future (including without limitation employment agreements and any other agreements containing "golden parachute" provisions and deferred compensation agreements) or any plan or program under which any employee, former employee or director (or beneficiary of any employee, former employee or director) of any Schaefer Company has or may have any current or future right to benefits.

"BOCP" shall mean BOCP, II, LLC, a Delaware limited liability company.

"Bonus Plan" shall mean that certain Sale Bonus and Severance Plan adopted June 6, 2006, between the Company and the key management employees of Equipment Co.

"Bonus Plan Releases" shall have the meaning specified in Section 5.1(k) hereof.

"Business Day" shall mean any day except a Saturday, a Sunday or a day on which commercial banks in Chicago, Illinois are authorized or required by law to close.

"Cash and Cash Equivalents" shall mean the sum of the fair market value, expressed in United States dollars, of all cash and cash equivalent assets (including marketable securities and short term instruments) of the Schaefer Companies as of immediately prior to the Closing.

"CCP" shall mean CCP Limited Partnership, a Wisconsin limited partnership.

"Closing" shall mean the conference to be held at 10:00 a.m., Eastern Daylight Time, on the Closing Date at the offices of Reed Smith LLP, 435 Sixth Avenue, Pittsburgh, Pennsylvania, or such other time and place as Sellers and Purchaser may mutually agree, at which time the transactions contemplated by this Agreement shall be consummated.

"Closing Cash" shall mean the aggregate amount of Cash and Cash Equivalents of the Schaefer Companies on hand as of the Closing Date.

"Closing Date" shall mean the date first written above.

"Closing Funded Debt" shall mean (i) the aggregate amount of Funded Debt of the Schaefer Companies outstanding as of the Closing Date, plus (ii) the other long term liabilities (other than retiree health and retiree life insurance and unfunded death benefits) outstanding as of the Closing Date, plus (iii) the Purchase Price as defined and set forth in the Warrant Repurchase Agreement.

"Closing Payment" shall have the meaning specified in Section 2.3 of this Agreement.

“*Closing Working Capital*” shall mean the Net Working Capital of the Schaefer Companies determined as of the Closing Date.

“*Code*” shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“*Company*” shall be defined as set forth above.

“*Computer Systems*” shall have the meaning specified in Section 3.26 of this Agreement.

“*Confidentiality Agreement*” means that certain confidentiality agreement between the Company and Purchaser dated April 18, 2006.

“*Consent*” shall mean any approval, consent, ratification, waiver, license, permit, certification, registration or other authorization of any Person, including any Governmental Authority.

“*Contract*” shall mean (i) any written agreement, contract, obligation, promise or undertaking that is legally binding (a) under which any Schaefer Company has or may acquire any rights, (b) under which any Schaefer Company has or may become subject to any obligation or liability or (c) by which any Schaefer Company or any of the assets owned or used by it is or may become bound or (ii) any oral agreement, contract, obligation, promise or undertaking (whether express or implied) meeting the requirements of (i) of this definition that, to the Knowledge of any of the Sellers, exists.

“*Current Assets*” shall mean as of the date of determination, the current assets of the Schaefer Companies as determined in accordance with GAAP, applied using the same accounting methods, practices, principles, policies and procedures, with consistent classifications, judgments and valuation and estimation methodologies, that were used in the preparation of the Reference Balance Sheet, other than Cash and Cash Equivalents and deferred Taxes.

“*Current Liabilities*” shall mean as of the date of determination, the current liabilities of the Schaefer Companies as determined in accordance with GAAP, applied using the same accounting methods, practices, principles, policies and procedures, with consistent classifications, judgments and valuation and estimation methodologies, that were used in the preparation of the Reference Balance Sheet, other than Funded Debt and accrued Taxes.

“*Cut-off Date*” shall have the meaning specified in Section 9.1(a) of this Agreement.

“*Dispute*” shall have the meaning specified in Section 10.1 of this Agreement.

“*Dispute Notice*” shall have the meaning specified in Section 10.3 of this Agreement.

“*Disputed Item*” shall have the meaning specified in Section 2.4(e) of this Agreement.

“*Encumbrance*” shall mean any lien, security interest, mortgage, pledge or other encumbrance of any nature, including without limitation any easement, right of way, charge, claim, community property interest, condition, equitable interest, option, right of first refusal or restriction or adverse claim of any kind, including without limitation any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership or any other encumbrance or exception to title of any kind, other than, with respect solely to any asset of a Schaefer Company, Permitted Encumbrances.

“*Environmental Claim*” shall mean any claim, action, cause of action, investigation or notice by any Person alleging liability (including, without limitation, liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from (i) the release by any Schaefer Company prior to Closing into the environment of any Hazardous Substances at any location, or (ii) any violation or alleged violation of any Environmental Law by any Schaefer Company prior to Closing.

“*Environmental Laws*” shall mean all Laws in effect as of the Closing Date relating to pollution or protection of the environment (including ambient air, surface water, ground water, land surface or subsurface strata), including Laws relating to emission, discharge, release, or to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances and each individually, an “Environmental Law.”

“*Environmental Losses*” means any of Purchaser’s Losses resulting from a breach of the representations and warranties in Section 3.16 of this Agreement.

“*Equipment Co.*” shall be defined as set forth above.

“*ERISA*” shall mean the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

“*Escrow Agent*” shall mean Mellon Bank, N.A., a national banking association with its principal place of business at One Mellon Center, Pittsburgh, Pennsylvania 15258.

“*Escrow Agreement*” shall mean the Escrow Agreement among Purchaser, Sellers’ Agent on behalf of Sellers, and the Escrow Agent in substantially the form of Exhibit “A” hereto.

“*Escrow Amount*” shall have the meaning specified in Section 2.3(b) of this Agreement.

“*Existing Plans*” shall mean the existing Benefit Plans with respect to employees of the Schaefer Companies, all of which are listed and described on the Sellers’ Disclosure Schedule.

“Final Closing Balance Sheet” shall mean the Preliminary Closing Balance Sheet, as determined to be binding and conclusive upon, deemed accepted by, and as amended to reflect resolution of any disputes between the parties pursuant to Section 2.4 of this Agreement.

“Final Closing Cash” shall mean the amount of Cash and Cash Equivalents as determined based on the Final Closing Balance Sheet.

“Final Closing Working Capital” shall mean the amount of Net Working Capital as determined based on the Final Closing Balance Sheet.

“Final Purchase Price” shall mean the Purchase Price as determined based on the Final Closing Balance Sheet.

“Financial Statements” shall mean the Annual Financial Statements and Interim Financial Statements, collectively.

“Funded Debt” shall mean indebtedness for borrowed money of any of the Schaefer Companies, including but not limited to the indebtedness listed on Exhibit “B” hereto.

“GAAP” means United States generally accepted accounting principles, consistently applied in accordance with the historical practices of the Schaefer Companies.

“Governmental Authority” means any United States federal, state or local government or political agency, division, subdivision thereof or any regulatory body, agency or authority or any authority, agency or commission entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power, any court or tribunal (or any department, bureau or division thereof).

“Hazardous Substances” means all hazardous substances, as that term is defined in CERCLA, solid waste, hazardous waste and any other individual or class of pollutants, contaminants, toxins, chemicals, substances, wastes or materials in their solid, liquid or gaseous phase, defined, regulated, classified or identified under any Environmental Law.

“Improvements” shall have the meaning specified in Section 3.12(c)(iv) of this Agreement.

“Indemnified Party” shall have the meaning specified in Section 9.4(a) of this Agreement.

“Indemnifying Party” shall have the meaning specified in Section 9.4(a) of this Agreement.

“Information” shall mean all nonpublic, confidential or proprietary information regarding any of the Schaefer Companies.

“Intellectual Property” shall have the meaning specified in Section 3.15 of this Agreement.

“*Interim Balance Sheet*” shall have the meaning specified in Section 3.5 of this Agreement.

“*Interim Financial Statement*” shall mean the internally prepared interim monthly consolidated financial statement of the Company and its Subsidiaries (including balance sheets and income statements) for the seven-month period beginning January 1, 2006 through July 31, 2006, copies of which have previously been provided to Purchaser.

“*Inventory*” shall mean goods, merchandise and other personal property, including without limitation all raw materials, work in progress, finished goods and materials and supplies of any kind or nature used in the business of the Equipment Co. or used in selling or furnishing such goods, merchandise or other personal property.

“*Knowledge*” shall mean with respect to (i) a natural Person, the actual knowledge of such Person, (ii) Sellers who are not natural Persons, the actual knowledge of David Kostolansky, Barry Anderson, Richard Barnhart, David Rubino and Philip Oswald, including such knowledge as they would reasonably be expected to know in the normal course of their duties with the Equipment Co., and (iii) Purchaser, the actual knowledge of Al Neupaver, Alvaro Garcia-Tunon, Barry Pennypacker and Keith Hildum, including such knowledge as they would reasonably be expected to know in the normal course of their duties with Purchaser.

“*Law*” shall mean any United States federal or state, local municipal or administrative order, constitution, law, rule, regulation, ordinance, principle of common law, court order, consent, decree, governmental license, permit, statute or treaty as in effect on the Closing Date.

“*Losses*” shall mean damages, liabilities, judgments, losses, or costs and expenses of whatever kind or nature (including reasonable attorneys’ fees and reasonable costs of investigation and defense); *provided, however*, that Losses shall not include consequential, incidental or punitive damages unless the Losses are the result of a Third-Party Claim; *provided further*, that lost profits shall not be considered to be consequential damages.

“*Material Adverse Effect*” shall mean a material adverse effect on (a) the business, operations, assets, results of operations or condition (financial or otherwise) of the Schaefer Companies taken as a whole or (b) the ability of any of the Sellers to consummate the transactions contemplated by this Agreement.

“*Material Contract*” shall have the meaning specified in Section 3.14(a) of this Agreement.

“*Media*” shall have the meaning specified in Section 9.3(e)(i) of this Agreement.

“*Named Representatives*” shall mean Al Neupaver, Alvaro Garcia-Tunon, Barry Pennypacker and Keith Hildum.

“*Net Working Capital*” shall mean for any date of determination, the excess of the Current Assets as of the close of business on such date of determination over the Current Liabilities as of such date of determination, calculated in all respects in accordance with GAAP

applied using the same accounting methods, practices, principles, policies and procedures, with consistent classifications, judgments and valuation and estimation methodologies that were used in the preparation of the Reference Balance Sheet.

“*O&G Properties*” shall mean oil and gas wells and oil and gas fee or leasehold interests.

“*Objection Notice*” shall have the meaning specified in Section 2.4(d)(i) of this Agreement.

“*Order*” shall mean any award, decision, injunction, judgment order, ruling, subpoena or verdict entered, issued, made or rendered by any Governmental Authority or by any arbitrator as in effect on the Closing Date.

“*Organizational Documents*” shall mean (a) the articles or certificate of incorporation and the bylaws of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (d) the certificate of organization and limited liability company agreement of a limited liability company; (e) any charter or similar document adopted or filed in connection with the creation, formation or organization of a Person; and (f) any amendment to any of the foregoing.

“*Other Real Estate*” shall mean the Real Estate other than the Owned Real Estate.

“*Owned Real Estate*” shall mean the Real Estate owned by the Schaefer Companies.

“*Parties*” or “*parties*” shall mean, as the context requires, any of the Purchaser, the Sellers and/or the Sellers’ Agent.

“*Permissible Activities*” shall have the meaning specified in Section 9.3(e)(i) of this Agreement.

“*Permitted Encumbrances*” means any lien for current Taxes not yet due and payable, any lien securing Taxes or any lien of materialmen, carriers, landlords and similar Persons, in each case not yet due or payable, any minor interest in an asset in favor of another Person which does not materially impair the value, ownership or use of such asset to the extent that the foregoing are appropriately reflected on the Interim Balance Sheet and those Encumbrances which are identified as Permitted Encumbrances on Part 1(PE) of the Sellers’ Disclosure Schedule.

“*Person*” shall mean a natural person, corporation (including any not-for-profit corporation), trust, estate, partnership, association, general or limited partnership, joint venture, limited liability company, governmental entity, agency or branch or department thereof, or any other legal entity.

“*Physical Inventory*” shall have the meaning specified in Section 2.4(a) of this Agreement.

“Preliminary Closing Balance Sheet” shall have the meaning specified in Section 2.4(c) of this Agreement.

“Proceeding” shall mean any hearing, action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, investigative or informal) commenced, brought, conducted or heard by or before or otherwise involving, any Governmental Authority or arbitrator.

“Purchase Price” shall have the meaning specified in Section 2.2 of this Agreement.

“Purchaser” shall mean Wabtec Holding Corporation, a Delaware corporation.

“Purchaser Disclosure Schedule” shall mean the Purchaser Disclosure Schedule, dated the date of this Agreement, delivered by the Purchaser to the Sellers.

“Purchaser Indemnified Persons” shall have the meaning specified in Section 9.3(a) of this Agreement.

“Real Estate” shall mean the real estate owned or leased by the Schaefer Companies, including without limitation all O&G Properties, together with all buildings, structures, fixtures and improvements thereon and all of the rights thereto.

“Real Estate Permit” shall have the meaning specified in Section 3.12(c)(ii) of this Agreement.

“Reference Balance Sheet” shall have the meaning specified in Section 3.5 of this Agreement.

“Release” has the meaning specified in 42 U.S.C. § 9601.

“Remediation Action” means any action to mitigate, remediate, monitor or otherwise respond to a Release of Hazardous Substances on, in, at, upon or from the Real Estate.

“Representatives” means, with respect to a particular Person, the affiliates, directors, officers, employees, agents, consultants, advisors or other representatives of such Person, including legal counsel, accountants and financial advisors.

“Review Period” shall have the meaning specified in Section 2.4(d)(i) of this Agreement.

“Schaefer Companies” shall mean the Company and the Equipment Co.

“Securities Act” means the Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder.

“Sellers” shall be defined as set forth above.

“*Sellers’ Agent*” shall have the meaning specified in Section 13.18 of this Agreement.

“*Sellers’ Disclosure Schedule*” shall mean the Sellers’ Disclosure Schedule, dated the date of this Agreement, delivered by the Sellers to Purchaser.

“*Shares*” shall mean the issued and outstanding shares of capital stock of the Company.

“*Straddle Period*” shall have the meaning specified in Section 6.1(a) of this Agreement.

“*Subsidiary*” or “*Subsidiaries*” shall mean with respect to any Person (for the purposes of this definition, the “Owner”), any corporation or other Person of which securities or other interests having the power to elect a majority of that corporation’s or other Person’s board of directors (or similar governing body) or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the Owner or one or more of its Subsidiaries.

“*Target Working Capital*” shall mean \$6,443,836 (which amount reflects the average Net Working Capital for the twelve month period ending July 31, 2006, as reflected in the internally prepared consolidated balance sheets of the Schaefer Companies as at the end of each calendar month during that period).

“*Tax*” shall mean all United States federal, state, local, foreign and other taxes of any kind, levies or other like assessments, customs, duties, imposts or charges, including without limitation, income, gross receipts, ad valorem, value-added, excise, real or personal property, asset, transfer, sales, use, license, payroll, franchise, withholding, employment, occupation, premium, windfall profits, customs, duties or other taxes, fees, assessments or charges of any kind, whether disputed or not, and including obligations to indemnify or otherwise assume or succeed to the Tax liability of any other Person and in each instance such term shall include any interest, penalties or additions to tax attributable to any such Tax.

“*Tax Returns*” shall mean all returns, declarations, reports, claims for refund and information returns and statements of any Person required to be filed or sent by or with respect to it regarding any Taxes, including any schedule or attachment thereto and any amendment thereof.

“*Third-Party Claim*” shall have the meaning specified in Section 9.5(a) of this Agreement.

“*Title Commitment*” shall have the meaning specified in Section 5.2(a) of this Agreement.

“*Title Company*” shall have the meaning specified in Section 5.2(a) of this Agreement.

“Trust” shall mean that certain Agreement of Trust for the Schaefer 401(k) Plan dated January 1, 1990, as amended.

“Unrelated Accountant” shall mean Grant Thornton LLP, Cleveland, Ohio.

“Warrant Repurchase Agreement” shall mean that certain Warrant Repurchase Agreement dated as of the date hereof among the Company, the Sellers’ Agent and BOCP.

2. PURCHASE AND SALE OF SHARES.

2.1 Purchase and Sale of Shares. Subject to the terms and conditions set forth in this Agreement, on the Closing Date, in consideration of the Purchase Price, Sellers shall sell to Purchaser, and Purchaser shall purchase from Sellers, the Shares, free and clear of all Encumbrances (except to the extent, if any, provided in Section 180.0622(2)(b) of the Wisconsin Business Corporation Law). The Parties agree that Sellers are solely responsible for satisfying the Closing Funded Debt and Purchaser shall not assume any portion of the Closing Funded Debt. The purchase and sale of the Shares pursuant to this Agreement shall be effective as of the close of business on the Closing Date.

2.2 Purchase Price. The Purchase Price to be paid by Purchaser to Sellers for the Shares shall be an amount equal to the sum of (i) Thirty Six Million Three Hundred Thousand and 00/100 Dollars (\$36,300,000.00) (the “Base Amount”), plus (ii) an amount equal to the Closing Cash, and (iii) (A) plus an amount equal to the amount (if any) by which the Closing Working Capital shall exceed the Target Working Capital or (B) less an amount equal to the amount (if any) by which the Target Working Capital shall exceed the Closing Working Capital (the “Purchase Price”). Purchaser shall pay the Purchase Price in the manner provided in Sections 2.3 and 2.4.

2.3 Closing Payment and Escrow Deposits.

(a) Closing Payment. At the Closing, Purchaser shall pay to Sellers’ Agent (or as Sellers’ Agent may direct in writing), by wire transfer in immediately available funds for the benefit of the Shareholders, an amount equal to the sum of (i) ninety percent (90%) of the Base Amount, plus (ii) the Closing Cash, plus (or minus) (iii) an agreed upon estimate of the amount (if any) by which the Closing Working Capital will exceed (or be less than) the Target Working Capital less (iii) the Closing Funded Debt (together with the Escrow Amount, the “Closing Payment”).

(b) Escrow Deposits. At the Closing, Purchaser shall pay to the Escrow Agent, by wire transfer in immediately available funds, an amount equal to (i) ten percent (10%) of the Base Amount (the “Escrow Amount”), plus (ii) the Closing Funded Debt. The Escrow Agent shall retain the Escrow Amount for distribution in accordance with the terms of this Agreement, and shall immediately pay off the Closing Funded Debt with the remaining amount of the deposit.

2.4 Payment-Related Items; Post-Closing Purchase Price Adjustment.

(a) Physical Inventory. At least five Business Days prior to Closing, the Company and Purchaser, with the assistance of the Company's audit firm, shall conduct a complete physical inventory (the "Physical Inventory") of Equipment Co.'s Inventory then on hand, which inventory shall be conducted following the methodologies and procedures set forth in Part 2.4 of the Sellers' Disclosure Schedule.

(b) Determination of Final Purchase Price. Following the Closing, the Parties shall determine the amount of the Closing Cash, the amount of the Closing Working Capital and, accordingly, the Purchase Price. The Closing Cash and the Closing Working Capital shall be determined in accordance with GAAP applied using the same accounting methods, practices, principles, policies and procedures, with consistent classifications, judgments and valuation and estimation methodologies, that were used in the preparation of the Reference Balance Sheet and, in the case of the Closing Working Capital, the determination of the Target Working Capital.

(c) Closing Balance Sheet. Not later than ninety (90) calendar days following the Closing Date, Purchaser shall prepare and deliver or cause to be prepared and delivered to the Sellers' Agent a consolidated balance sheet of the Company and its Subsidiaries as of the Closing Date prepared in accordance with GAAP (the "Preliminary Closing Balance Sheet"), and a statement of the proposed Final Closing Cash, the Final Closing Working Capital and, accordingly, the Final Purchase Price, in each case, as of immediately prior to the Closing and, if applicable, derived from the Preliminary Closing Balance Sheet. The Final Closing Cash and the Final Closing Working Capital shall be calculated in accordance with the provisions of this Section 2.4(c) and shall reflect the results of the Physical Inventory.

(d) Preliminary Closing Balance Sheet Review.

(i) The Sellers' Agent shall have thirty (30) days following the delivery by the Purchaser to the Sellers' Agent of the Preliminary Closing Balance Sheet (the "Review Period") to review the Preliminary Closing Balance Sheet. The Preliminary Closing Balance Sheet shall be conclusive and binding upon the Parties as to items set forth therein unless, within ten (10) days following the expiration of the Review Period, the Sellers' Agent notifies Purchaser in writing (the "Objection Notice") that the Sellers' Agent disputes any of the amounts set forth therein. The Objection Notice shall (a) clearly identify each item of the Preliminary Closing Balance Sheet to which the Sellers' Agent objects and (b) describe in detail the nature of such objection and the Sellers' Agent's calculation of such disputed item.

(ii)(A) If Sellers' Agent does not deliver an Objection Notice to Purchaser within the Review Period or (B) following delivery of any Objection Notice to Purchaser on a timely basis in respect of which the Parties achieve resolution of any disputes set forth therein within the time period set forth in subsection (e) below, the Preliminary Closing Balance Sheet (as amended to the extent necessary to reflect the resolution of such disputes), shall be conclusive and binding on the Parties, and Purchaser shall prepare a schedule setting forth the calculation of the Final Closing Working Capital and the Final Purchase Price (each such calculation to be made in accordance with the provisions of this Agreement) and shall deliver such schedule to the Sellers' Agent within ten (10) Business Days after the expiration of the Review Period (in the case of (A) above) or resolution of the disputes (in the case of (B))

above). The date of such delivery shall be deemed the date of the determination of the Final Purchase Price for the purposes of subsection (g) below. Any item of the Preliminary Closing Balance Sheet as finally determined pursuant to this subparagraph shall be deemed to be final and binding.

(e) Objection Notice and Disputes. If the Sellers' Agent delivers an Objection Notice to Purchaser on a timely basis, Purchaser and the Sellers' Agent shall during the twenty (20) Business Day period following receipt of such Objection Notice use commercially reasonable efforts to negotiate in good faith and reach agreement on each item of the Preliminary Closing Balance Sheet disputed pursuant to the Objection Notice. If during such period, Purchaser and Sellers' Agent are unable to reach agreement, they shall immediately refer any such unresolved items to the Unrelated Accountant for resolution in accordance with subsection (f) below (any such referred item, a "Disputed Item").

(f) Determination of Dispute. Promptly, but no later than twenty (20) days after acceptance of his or her appointment as Unrelated Accountant, the Unrelated Accountant shall determine (it being understood that in making such determination, the Unrelated Accountant shall be functioning as an expert and not as an arbitrator), those Disputed Items and shall render a written report as to the resolution of the Disputed Items and the resulting computation of the Final Closing Cash, or the Final Closing Working Capital, as the case may be, which computation shall be conclusive and binding on the Parties. In the course of the Unrelated Accountant's review, the Parties shall deliver written submissions to the Unrelated Accountant describing their respective positions. In addition, the parties shall be entitled to make oral presentations or arguments if either party so requests. In resolving any Disputed Item, the Unrelated Accountant (i) shall be bound by the provisions of this Section 2.4, (ii) may not assign a value to any item greater than the greatest value for such item claimed by either party or less than the lowest value for such item claimed by either party; *provided*, that if a value assigned to an item in dispute requires under GAAP that a corresponding or related adjustment or adjustments be made, the Unrelated Accountant shall have the authority to make such other adjustment or adjustments and (iii) may review (and the parties shall provide) any and all documents and records as the Unrelated Accountant deems appropriate. Upon receipt of the Unrelated Accountant's written report, (A) the Preliminary Closing Balance Sheet, as modified to reflect the Unrelated Accountant's determinations, shall be deemed accepted by, and such determinations shall be final and binding on, the Sellers' Agent and Purchaser and enforceable as an arbitration award pursuant to the Federal Arbitration Act, 9 U.S.C. § 1-16, and (B) Purchaser shall prepare a schedule setting forth the calculation of the Final Closing Cash, the Final Closing Working Capital and the Final Purchase Price (each such calculation to be made in accordance with the procedures of this Agreement) and shall deliver such schedule to the Sellers' Agent within ten (10) Business Days after Purchaser's receipt of the Unrelated Accountant's written report. The Unrelated Accountant's fees and expenses shall be borne by Purchaser and the Sellers' Agent in such proportion as the Unrelated Accountant may determine and, in the absence of such determination, equally.

(g) Upon final determination of the Final Purchase Price as provided in subsections (d)(ii) or (f) above: (i) if the Final Purchase Price exceeds the Closing Payment, Purchaser shall pay to Sellers an amount equal to such excess by wire transfer of immediately available funds in such portions and to an account or accounts designated by Sellers' Agent in

writing, no later than five (5) Business Days after such final determination, or (ii) if the Closing Payment exceeds the Final Purchase Price, Purchaser shall withdraw an amount equal to such excess, plus any interest due and owing thereon, from the Escrow Amount. Interest shall accrue on any amount not paid by either party to the other within five (5) Business Days after such final determination at a rate of one percent (1%) per month. Sellers' Agent hereby directs that 14.593% of any amount payable by Purchaser under clause (i) shall be paid to BOCP in accordance with its written instructions (which payment is attributable to the warrant being repurchased by Schaefer immediately prior to the Closing as described in the Warrant Purchase Agreement). The Parties may not amend the previous sentence without the written consent of BOCP.

3. REPRESENTATIONS AND WARRANTIES OF THE SELLERS. Except as set forth in this Agreement and/or the Sellers' Disclosure Schedule, each of the Sellers, jointly and severally, hereby make the following representations and warranties to Purchaser. Regardless of the foregoing, the representations and warranties of the Sellers set forth in Sections 3.1(b) and 3.3(a) are made severally by each Seller, with respect to such Seller only.

3.1 Organizational Matters.

(a) **Organization and Qualification; Power.** Part 3.1(a) of the Sellers' Disclosure Schedule contains a complete and accurate list for each Schaefer Company of its name, its jurisdiction of incorporation, other jurisdictions in which it is authorized to do business. Each Schaefer Company is a corporation duly organized and validly existing under the Laws of its jurisdiction of incorporation. Each Schaefer Company is duly qualified or licensed, as the case may be, to do business and is in good standing as a foreign corporation under the Laws of each jurisdiction where the nature of their respective activities or the ownership or use of properties owned or used by it require such qualification or licensing, except where the failure to be so qualified or licensed would not have a Material Adverse Effect. Each Schaefer Company has all requisite power and authority to own, lease and operate its properties and assets that it purports to own, lease or operate, to perform its obligations under any Contract to which it is a party or by which it is bound and to carry on its business as it is now being conducted. The Company has no assets other than the capital stock of Equipment Co., has no employees, has no business operations, has no contracts or other liabilities other than as disclosed in Part 3.1(a) of the Sellers' Disclosure Schedule. Equipment Co. has no Subsidiaries. The Sellers have delivered to Purchaser copies of the Organizational Documents, as currently in effect, of each of the Schaefer Companies.

(b) **Authority; Validity.** Each Seller warrants and represents that: (i) he or it has all requisite power and authority to enter into this Agreement and the related agreements referred to herein and to carry out his or its respective obligations hereunder and thereunder; (ii) his or its execution and delivery of this Agreement and the other documents and agreements to be executed by him or it pursuant hereto and (with respect to the Sellers, where such Seller is a business entity or trust) the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on its behalf; (iii) no further act or proceeding on the part of the Company or such Seller is necessary to authorize this Agreement or the other documents and instruments to be executed and delivered by him or it pursuant hereto or the consummation of the transactions contemplated hereby and

thereby; (iv) this Agreement and the Ancillary Agreements to which such Seller is a party have been duly executed and delivered by such Seller and constitute the valid and binding obligations of the Company or such Seller enforceable against him or it in accordance with their respective terms except that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and by general equitable principles and (v) the execution and delivery of this Agreement and the Ancillary Agreements to which such Seller is a party, the sale and transfer of the Shares and the consummation of the transactions contemplated hereby does not and will not violate or conflict with any Law or Order to which the Company or such Seller, as the case may be, is bound.

3.2 Compliance; Binding Effect. The execution and delivery of this Agreement and the Ancillary Agreements which any of the Sellers is a party, the sale and transfer of the Shares and the consummation of the transactions contemplated hereby will not directly or indirectly (with or without notice or lapse of time): (a) (with respect to the Sellers, where such Seller is a business entity) violate any provision of the Organizational Documents of any Seller or either of the Schaefer Companies or any resolution adopted by the board of directors (or similar governing body) or the shareholders of such Seller or either of the Schaefer Companies; (b) contravene, conflict with, result in a violation or breach of any provision of, constitute a default under or constitute an event which with the giving of notice or the lapse of time or both would become a default or give any Person the right to declare a default or exercise any remedy under or to accelerate the maturity or performance of or to cancel, terminate or modify any material Contract to which any Seller or either of the Schaefer Companies is a party; (c) violate or conflict with any Law or Order to which any Seller or Schaefer Company is subject or bound; (d) contravene, conflict with or result in a violation of or give any Governmental Authority or other Person the right to challenge any of the transactions contemplated by this Agreement or to exercise any remedy or obtain any relief under any Law or any Order to which any Seller or Schaefer Company may be subject; (e) contravene, conflict with or result in a violation of any of the terms or requirements of or give any Governmental Authority the right to revoke, withdraw, suspend, cancel, terminate or modify, any Consent of such Governmental Authority that is held by any Schaefer Company and which is necessary to the conduct of the business of such Schaefer Company or that is held by any Seller that otherwise relates to the business or assets of any Schaefer Company or (f) result in the imposition or creation of any Encumbrance upon or with respect to any of the Shares owned by any Seller or Schaefer Company or any of the assets owned or used by any Schaefer Company.

3.3 Shares.

(a) Sellers own all of the issued and outstanding shares of the Company's capital stock. The authorized capital stock of the Company consists of 8,000 Shares of \$.01 par value Class A Voting Common Stock and 1,000 Shares of \$.01 par value Class B Nonvoting Common Stock. None of the shares of Class B Nonvoting Common Stock is outstanding and the Class A Voting Common Stock and is owned of record as set forth in Part 3.3(a) of the Sellers' Disclosure Schedule. Except as set forth in Part 3.3(a) of the Sellers' Disclosure Schedule, no legend or other reference to any purported Encumbrance appears on any certificate representing the Shares. The Shares have been duly authorized and validly issued and are fully paid and nonassessable (except to the extent, if any, provided in Section 180.0622(2)(b) of the Wisconsin Business Corporation Law). Each Seller warrants and represents that he or it

owns (or will own as of Closing) beneficially and of record all of the Shares attributed to such Seller on Part 3.3(a) of the Sellers' Disclosure Schedule free and clear of all Encumbrances. Except as set forth on Part 3.3(a) of the Sellers' Disclosure Schedule, such Seller has no other rights relating to the issuance, purchase, registration or transfer of any equity or other securities of the Company. Except as set forth in Part 3.3(a) of the Sellers' Disclosure Schedule, such Seller does not have and is not bound by any outstanding subscriptions, warrants, options or other rights calling for the purchase of shares of Company capital stock or any other equity securities of the Company. None of the outstanding equity securities or other securities of the Company was issued in violation of any preemptive rights or the Securities Act or any state securities Law.

(b) The Company owns, directly or indirectly, all of the issued and outstanding shares of capital stock or other equity ownership interests of Equipment Co. as set forth in Part 3.3(b) of the Sellers' Disclosure Schedule, free and clear of all Encumbrances, and all of such shares or equity ownership interests are duly authorized and validly issued and are fully paid, nonassessable and were not issued in violation of any preemptive right. Except as set forth on Part 3.3(b) of the Sellers' Disclosure Schedule, none of the Schaefer Companies has or is bound by any outstanding subscriptions, options, warrants, calls, purchase rights, exchange rights or other contracts or commitments of any character which require such Schaefer Company to issue, sell, or otherwise to cause to become outstanding any shares of capital stock of such Schaefer Company or any other equity security of such Schaefer Company or any securities representing the right to purchase or otherwise receive any shares of capital stock or any other equity security of such Schaefer Company. Except as set forth in Part 3.3(b) of the Seller Schedule, there are no Contracts relating to the issuance, sale, registration or transfer of any equity securities or other securities of the Company. None of the outstanding equity securities or other securities of any Schaefer Company was issued in violation of any preemptive rights or the Securities Act or any state securities Law. None of the Schaefer Companies owns or has any Contract to acquire any equity securities or other securities of any Person or any direct or indirect equity or ownership interest in any other company (other than Schaefer Companies).

3.4 Consents. No notice to or Consent or Order of any Governmental Authority or any other Person (including the spouse of any Seller) is required in connection with the execution and delivery of this Agreement or the consummation or performance of any of the transactions contemplated by this Agreement.

3.5 Financial Statements. The Sellers have delivered to the Purchaser: (a) the Annual Financial Statements, and the related consolidated statements of operations, changes in shareholders' deficit and cash flows for the years then ended, together with the report thereon of Virchow, Krause & Company, LLP, independent public accountants (the December 31, 2005 consolidated balance sheet, together with the related notes thereto, is hereinafter referred to as the "Reference Balance Sheet"), (b) a combined audited balance sheet of the Schaefer Companies as of December 31, 2005, and the related combined statements of income, shareholders' equity and cash flows for the year then ended, together with the report thereon of Virchow, Krause & Company, LLP, and (c) an unaudited consolidated balance sheet of the Schaefer Companies as of July 31, 2006 (the "Interim Balance Sheet") and related unaudited consolidated statements of operations and cash flows for the seven months then ended, including in the case of (a) and (b), the related notes thereto. Such financial statements and related notes

thereto present fairly in all material respects the financial position, results of operations and cash flows of the Schaefer Companies, taken as a whole, as of the respective dates and for the periods referred to in such financial statements, all in accordance with GAAP (except as otherwise indicated therein or in the notes thereto and, in the case of Interim Financial Statements, normal recurring year-end adjustments and the absence of notes and other presentation items). The financial statements referred to in this Section 3.5 reflect the consistent application of such accounting principles throughout the periods involved. No financial statements of any Person other than the Schaefer Companies are required by GAAP to be included in the consolidated financial statements of the Company. The warranties and representations herein related to financial statements other than audited financial statements are to the Knowledge of the Sellers.

3.6 No Material Adverse Changes. Since December 31, 2005, there has not been a material adverse change in the business, operations, assets, results of operations or condition (financial or otherwise) of the Schaefer Companies, taken as a whole, and no event has occurred or circumstance exists that would reasonably be expected to have a Material Adverse Effect on (a) the business, operations, assets, results of operations or condition (financial or otherwise) of the Schaefer Companies or (b) the ability of the Company or the Sellers to consummate the transactions contemplated by this Agreement.

3.7 Absence of Certain Changes. Except as set forth in Part 3.7 of the Sellers' Disclosure Schedule, since December 31, 2005, the business of the Schaefer Companies has been operated in the ordinary course of business consistent with past practice and without limiting the generality of the foregoing, except as set forth in Part 3.7 of the Sellers' Disclosure Schedule, since that date, neither of the Schaefer Companies:

- (a) has suffered any material damage, destruction or loss (not covered by insurance) affecting its assets;
- (b) has suffered any material increase or commitment to increase in either the rate of compensation or the actual compensation payable or to become payable to any employees of such Schaefer Company, except in the ordinary course of business;
- (c) has suffered the termination or received notice of termination of any Material Contract or license of such Schaefer Company, other than terminations or expirations of such Contracts or licenses in the ordinary course of business;
- (d) has suffered any cancellation of a Contract to purchase goods by a customer of such Schaefer Company;
- (e) has made any capital expenditures (other than in the ordinary course of business) in excess of \$100,000 in the aggregate;
- (f) has created and no event has occurred or circumstance exists that would result in any Encumbrance on of any of its property or assets, other than Permitted Encumbrances;

(g) has sold, leased, transferred, or assigned any of its assets, tangible or intangible, other than for a fair consideration in the ordinary course of business consistent with past practice;

(h) has entered into any transaction, commitment, Contract or license (or series of related transactions, commitments, Contracts or licenses) either involving more than \$100,000 or outside the ordinary course of business;

(i) has received notice of any acceleration, termination, modification or cancellation of any Contract or license (or series of related Contracts or licenses) involving more than \$10,000 to which such Schaefer Company is a party or by which it is bound;

(j) has failed to pay, delayed or postponed the payment of accounts payable or other liabilities in excess of \$50,000 in any single instance or \$100,000 in the aggregate;

(k) has cancelled, compromised, waived, or released any debt, right or claim (or series of related rights and claims);

(l) changed its authorized or issued capital stock, declared, set aside, or paid any dividend or made any distribution or other payment with respect to its capital stock (whether in cash or in kind), granted any stock option or right to purchase shares of capital stock, issued any security convertible into capital stock, granted any registration rights or redeemed, retired, purchased or otherwise acquired any of its capital stock;

(m) has granted and no event has occurred or circumstance exists that would result in any change in the base compensation, commission, bonus or other direct or indirect remuneration payable, or paid or agreed or orally promised to pay, conditionally or otherwise, any bonus, incentive, retention or other compensation, retirement, welfare, fringe or severance benefit or vacation pay, to or in respect of any of its shareholders, directors, officers, employees, salesmen, distributors or agents outside the ordinary course of business;

(n) has adopted, amended, modified or agreed to modify or terminate any bonus, profit-sharing, incentive, severance, or other plan, contract, or commitment for the benefit of any of its directors, officers, and employees (or taken any such action with respect to any other Benefit Plan) or adopted any plan, fund, program or arrangement falling within the definition of a Schaefer Benefit Plan;

(o) has made any other change in employment terms for any of its directors, officers, and employees outside the ordinary course of business;

(p) has made or pledged to make any charitable or other capital contribution outside the ordinary course of business;

(q) discharged or satisfied any Encumbrance or liability other than those then required to be discharged or satisfied, or paid any obligation or liability, absolute, accrued, contingent or otherwise, whether due or to become due, other than capitalized leases,

current liabilities shown on the Reference Balance Sheet and current liabilities incurred since the date thereof in the ordinary course of business;

(r) has instituted, settled or agreed to settle any Proceeding relating to its property, assets or business other than (i) in the ordinary course of business consistent with past practice or (ii) in cases involving amounts in the aggregate not in excess of \$100,000; or

(s) has taken any action or omitted to take any action, and no event has occurred or circumstance exists, that would result in the occurrence of any of the foregoing.

3.8 Powers of Attorney. Except as set forth in **Part 3.8** of the Sellers' Disclosure Schedule, no Representative of either Schaefer Company holds any power of attorney to act with respect to such Schaefer Company.

3.9 Litigation.

(a)(i) There are no facts, events or circumstances that have occurred on or prior to the Closing Date that would give rise to or result in a Third Party Claim against either Schaefer Company; (ii) there is no Proceeding pending or threatened against either Schaefer Company, and (iii) there is no Proceeding pending or threatened against either Schaefer Company or any Seller which challenges or questions the legality, validity or propriety of or that may have the effect of preventing, delaying, making illegal or otherwise interfering with the transactions contemplated by this Agreement.

(b)(i) There is no outstanding Order against or involving either of the Schaefer Companies; and (ii) no shareholder, officer, director or employee of either Schaefer Company is subject to any Order that prohibits such shareholder, officer, director or employee from engaging in or continuing any conduct, activity or practice relating to the business or assets of such Schaefer Company.

(c)(i) Each Schaefer Company is in compliance with all of the terms and requirements of each Order to which its business or assets is subject, (ii) each Schaefer Company has been in compliance with all of the terms and requirements of each Order to which its business or assets were, on the date of determination of such compliance, subject, (iii) no Schaefer Company has received notice of any present or past unremedied violation of any Order and (iv) no event has occurred or circumstance exists that may constitute or result in (with or without notice or lapse of time) a violation of or failure to comply with any term or requirement of any Order to which any Schaefer Company or its business or assets is subject.

3.10 Licenses; Compliance With Laws and Regulations.

(a) **Governmental Licenses; Notices.** Except as set forth in **Part 3.10(a)** of the Sellers' Disclosure Schedule, to the Knowledge of Sellers, each Schaefer Company has all Consents from Governmental Authorities (for purposes of this Section 3.10, "**Governmental Authorizations**") necessary to lawfully conduct and operate its business as conducted on the Closing Date and to permit such Schaefer Company to own and use its assets in the manner in which it currently owns and uses such assets. **Part 3.10(a)** of the Sellers' Disclosure Schedule contains a complete and accurate list of each Governmental Authorization

that is held by either Schaefer Company, and each such Governmental Authorization is in full force and effect. Except as set forth in Part 3.10(a) of the Sellers' Disclosure Schedule, both of the Schaefer Companies are in compliance in all material respects with all such Governmental Authorizations, and neither of the Schaefer Companies has received notice of any asserted present, or past and unremedied, failure to obtain any Governmental Authorization.

(b) Compliance With Laws and Regulations. Except as provided in Part 3.10(b) of the Sellers' Disclosure Schedule, (i) each Schaefer Company is in material compliance with all Laws applicable to it or to the conduct or operation of its business or the ownership or use of any of the properties or assets owned or used by it and, to the Knowledge of Sellers, each Schaefer Company has been in compliance with each Law that was, on the date of determination of such compliance, applicable to it or to the conduct or operation of its business or the ownership or use of any of the properties owned or used by it; (ii) to the Knowledge of the Sellers, no event has occurred or circumstance exists that (with or without notice or lapse of time) (A) constitutes a violation by either Schaefer Company or a failure on the part of either Schaefer Company to comply with, any Law, or (B) results in the imposition of any Encumbrance against either Schaefer Company or any of its property under any Law and (iii) neither Schaefer Company has received any written notice from any Governmental Authority or any other Person regarding any actual or alleged violation of or failure to comply with, any Law.

3.11 Title to and Condition of Personal Property.

(a) Title. Except as provided in Part 3.11(a) of the Sellers' Disclosure Schedule, each of the Schaefer Companies has good and marketable title to, or a valid leasehold interest in, all of its personal property free and clear of all Encumbrances other than Permitted Encumbrances.

(b) Condition. Both of the Schaefer Companies' personal property, taken as a whole, is in good operating condition, subject to normal wear and tear.

3.12 Real Estate.

(a) Part 3.12(a) of the Sellers' Disclosure Schedule contains a complete and correct list of the Real Estate. The Schaefer Companies own and have good and marketable fee simple title to the Owned Real Estate free and clear of all Encumbrances other than the Permitted Encumbrances. The Schaefer Companies hold a valid leasehold interest in and to the Other Real Estate. Except as set forth in Part 3.12(a) of the Sellers' Disclosure Schedule, (i) (A) there are no commenced or, to the Knowledge of Sellers, planned public improvements related to the Owned Real Estate that may result in special assessments for which the owner of such Real Estate would be responsible, and (B) to the Knowledge of the Sellers, there are no commenced or planned public improvements related to the Other Real Estate that may result in special assessments for which the lessee of such Real Estate would be responsible; (ii) there is, to the Knowledge of Sellers, no planned condemnation or similar action or material change in any zoning or building ordinance materially and adversely affecting the Real Estate, (iii) to the Knowledge of the Sellers, the Real Estate is not in violation of any zoning law or use or occupancy restriction and (iv) (A) no part of the Owned Real Estate is located within a flood plain or lakeshore erosion hazard area and (B) to the Knowledge of Sellers, no part of the Other

Real Estate is located within a flood plain or lakeshore erosion hazard area. No Schaefer Company has received any notice requiring material repairs, alterations or correction of any existing conditions of the Real Estate that have not been addressed. No Schaefer Company leases any real property, has options to purchase or lease real property or owns any real property interest therein other than the Real Estate.

(b) The Sellers have furnished or made available to the Purchaser true, correct and complete copies of all (i) title reports, if any, (ii) surveys, if any and (iii) deeds (as recorded), title holding or trust agreements under which any of the Real Estate have been conveyed to the Sellers.

(c) With respect to each parcel of Owned Real Estate:

(i) the Schaefer Companies are in compliance with all applicable zoning laws, deed restrictions and building codes, except for non-compliance which would not materially interfere with the present use of such Real Estate. To the Knowledge of Sellers, if any building or improvement located on any parcel of such Real Estate is damaged or destroyed, the Purchaser or the Schaefer Companies (as the case may be) would have the unconditional right under applicable existing zoning laws to rebuild such building or improvement;

(ii) the Schaefer Companies have all permits, licenses and approvals with respect to the ownership and the current use and occupancy of such Real Estate, other than those the lack of which would not materially interfere with the present use of such Real Estate (for purposes of this Section 3.12, individually, a "Real Estate Permit" and collectively, "Real Estate Permits"). All such Real Estate Permits are set forth on Part 3.12(c)(ii) of the Sellers' Disclosure Schedule and are in full force and effect. The current use and occupancy of such Real Estate does not violate any such Real Estate Permits, and no Proceeding is pending or, to the Knowledge of the Sellers, threatened, to revoke, suspend, modify or limit any such Real Estate Permits. No such Real Estate Permits will be subject to revocation, suspension, modification or limitation as a result of this Agreement or the consummation of the transactions contemplated hereby;

(iii) except as disclosed on Part 3.12(c)(iii) of the Sellers' Disclosure Schedule, there are no defects with respect to any such Real Estate which would impair, in any material respect, the operation of the business of the Schaefer Companies or the day-to-day use of such Real Estate or which would subject the Schaefer Companies to any liability under applicable law;

(iv) all buildings, structures, improvements, fixtures, building systems and equipment, pipelines, gathering systems, pumping systems, compression systems, and all components thereof (for purposes of this Section 3.12, the "Improvements") are in good condition and repair, subject to normal wear and tear, and are usable in the ordinary course of business and, except as disclosed on Part 3.12(c)(iv) of the Sellers' Disclosure Schedule, do not contain asbestos or other Hazardous Substances. To the Knowledge of the Sellers, there are no structural deficiencies affecting any of the Improvements, and there are no facts or conditions affecting any of the Improvements which would, individually or in the aggregate, interfere in any

material respect with the use or occupancy of the Improvements or any portion thereof in the operation of the business of the Schaefer Companies therein. All of the Improvements lie wholly within the boundaries of such Real Estate and do not encroach upon the property of, or otherwise conflict with, the property rights of any other Persons; and

(v) all facilities located on such Real Estate are supplied with utilities and other services necessary for the operation of such Real Estate as presently operated.

(d) With respect to each parcel of Other Real Estate, to the Knowledge of Sellers:

(i) the Schaefer Companies are in compliance with all applicable zoning laws, deed restrictions and building codes, except for non-compliance which would not materially interfere with the present use of such Real Estate. If any building or improvement located on any parcel of such Real Estate is damaged or destroyed, the Purchaser or the Schaefer Companies (as the case may be) would have the unconditional right under applicable existing zoning laws to rebuild such building or improvement;

(ii) the Schaefer Companies have all Real Estate Permits, other than those the lack of which would not materially interfere with the present use of such Real Estate. All such Real Estate Permits are set forth on Part 3.12(d)(ii) of the Sellers' Disclosure Schedule and are in full force and effect. The current use and occupancy of such Real Estate does not violate any such Real Estate Permits, and no Proceeding is pending or threatened, to revoke, suspend, modify or limit any such Real Estate Permits. No such Real Estate Permits will be subject to revocation, suspension, modification or limitation as a result of this Agreement or the consummation of the transactions contemplated hereby;

(iii) there are no defects with respect to any such Real Estate which would impair, in any material respect, the operation of the business of the Schaefer Companies or the day-to-day use of such Real Estate or which would subject the Schaefer Companies to any liability under applicable law;

(iv) all Improvements are in good condition and repair, subject to normal wear and tear, and are usable in the ordinary course of business and do not contain asbestos or other Hazardous Substances. There are no structural deficiencies affecting any of the Improvements, and there are no facts or conditions affecting any of the Improvements which would, individually or in the aggregate, interfere in any material respect with the use or occupancy of the Improvements or any portion thereof in the operation of the business of the Schaefer Companies therein. All of the Improvements lie wholly within the boundaries of such Real Estate and do not encroach upon the property of, or otherwise conflict with, the property rights of any other Persons; and

(v) all facilities located on such Real Estate are supplied with utilities and other services necessary for the operation of such Real Estate as presently operated.

(e) Except as disclosed on Part 3.12(e) of the Sellers' Disclosure Schedule, there are no restrictions of any nature on the ability of the Schaefer Companies to assign and transfer their interests in the Real Estate to the Purchaser (or its designee) by operation by law and there are no consents of third parties necessary for such assignment or transfer.

3.13 Taxes.

(a) The Schaefer Companies (i) have timely filed or has caused to be timely filed with the appropriate Governmental Authorities all Tax Returns required to be filed by them as of the date of this Agreement for all periods ended on or prior to the Closing Date and (ii) have paid or have caused to be paid all Taxes (whether or not shown on any Tax Returns). All Tax Returns filed by the Schaefer Companies are correct and complete in all material respects. All Taxes relating to either of the Schaefer Companies that either is required by Law to withhold or collect for all periods ending on or prior to the Closing Date have been withheld or collected and have been paid over to the proper authorities to the extent due and payable.

(b) Neither of the Schaefer Companies is currently the subject of an audit or other examination of Taxes by the tax authorities of any nation, state or locality nor has either Schaefer Company received any written notices from any taxing authority that such an audit or examination is contemplated or pending. There is no material dispute or claim concerning any Tax liability of the Schaefer Companies claimed or raised by any tax authority in writing.

(c) Neither of the Schaefer Companies (i) has entered into a written agreement or waiver extending any statute of limitations relating to the payment or collection of a material amount of Taxes of either Schaefer Company that has not expired or (ii) is presently contesting any material Tax liability of either Schaefer Company before any Governmental Authority.

(d) As of the Closing Date, neither of the Schaefer Companies has received written notification from a Tax authority that threatens a Proceeding for collection of Taxes that could subject either Schaefer Company to any liability for such Taxes, except for Taxes properly recorded on the Financial Statements.

(e) There are no Encumbrances for Taxes (other than Taxes not yet due and payable) upon any of the assets of either Schaefer Company.

(f) Neither Schaefer Company is a party to any agreement, contract, arrangement, or plan that has resulted or would result, separately or in the aggregate, in the payment of any "excess parachute payment" within the meaning of Code Section 280G (or any corresponding provision of state or local Tax law).

(g) Neither Schaefer Company is a party to or bound by any Tax allocation or sharing agreement.

(h) Neither Schaefer Company (i) has been a member of an Affiliated Group filing a consolidated federal income Tax Return (other than a group the common parent of which was the Company) or (ii) has any liability for Taxes of any Person (other than any Schaefer Company) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign law), as transferee or successor, by contract, or otherwise. For purposes of

this Section 3.13, the term “Affiliated Group” shall mean any affiliated group within the meaning of Code Section 1504(a) or any similar group defined under a similar provision of state, local or foreign law.

(i) The unpaid Taxes of the Schaefer Companies (i) did not, as of the date of the Interim Financial Statements, exceed the reserve for Tax liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the Interim Financial Statements and (ii) will not exceed that reserve as adjusted for operations and transactions through the Closing Date in accordance with the past custom and practice of the Schaefer Companies in filing their Tax Returns.

3.14 Contracts and Commitments.

(a) Part 3.14(a) of the Sellers’ Disclosure Schedule sets forth a list of the following Contracts to which either of the Schaefer Companies is a party (collectively, the “Material Contracts”): (i) a material agreement with any senior executive that is not cancelable by Equipment Co. on notice of not longer than thirty (30) days and without liability, penalty or premium; (ii) a lease of personal property involving consideration or other expenditure in excess of One Hundred Thousand Dollars (\$100,000) per annum; (iii) except for purchase or sale orders for the purchase of materials or supplies or customer contracts entered into in the ordinary course of business, an agreement involving payment or other expenditure of more than One Hundred Thousand Dollars (\$100,000) in the aggregate that is not cancelable on less than 12 months’ notice; (iv) an agreement providing for the disposition of a material asset, other than in the ordinary course of business; (v) an agreement which provides for severance benefits upon termination of employment; (vi) a material agreement with a sales representative, dealer or distributor; (vii) a material license agreement; (viii) a material agreement under which Equipment Co. is indebted for borrowed money; and (ix) an agreement with a customer of Equipment Co.

(b) Neither of the Schaefer Companies is and, to the Knowledge of Sellers, none of the other parties to each Material Contract is, in breach, violation of or default under any provision of any Material Contract. Each Material Contract is in full force and effect and represents a valid and binding obligation of such Schaefer Company party thereto and, to the Knowledge of Sellers, each other party thereto. To the Knowledge of the Sellers, no event has occurred or circumstance exists that would give any Person the right (with or without notice or lapse of time) to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify such Material Contract.

(c) There are no renegotiations of, attempts to renegotiate or outstanding rights to renegotiate any amounts paid or payable to either Schaefer Company under current or completed Material Contracts with any Person, and no such Person has made demand (written or otherwise) for such renegotiation.

(d) The Material Contracts relating to the sale, design or provision of products or services by the Schaefer Companies have been entered into in the ordinary course of business consistent with past practice and have been entered into without the commission of any

act alone or in concert with any other Person, or any consideration having been paid or promised, that is or would be in violation of any Law.

(e) None of the Sellers has or may acquire any rights under, and none of the Sellers has or may become subject to any obligation or liability under, any Material Contract that relates to the business of, or any of the assets owned or used by, either Schaefer Company and (ii) to the Knowledge of the Sellers, no shareholder, officer, director, agent, employee, consultant or contractor of either Schaefer Company is bound by any Material Contract (other than those certain Wabtec Corporation Employee Non-Competition and Confidentiality Agreements referred to in Section 5.1(m) hereof) that purports to limit the ability of such shareholder, officer, director, agent, employee, consultant or contractor to (A) engage in or continue any conduct, activity, or practice relating to the business of either Schaefer Company or (B) assign to either Schaefer Company or to any other Person any rights to any invention, improvement, or discovery.

3.15 Intellectual Property. Part 3.15 of the Sellers' Disclosure Schedule lists all patents, trademarks, trade names, trade dress, trade secrets, service marks, copyrights and licenses thereof used or owned by the Schaefer Companies and all pending applications therefor (collectively, the "Intellectual Property"), all of which are free and clear of any material adverse claims or interests. The Schaefer Companies own or have the right to use all items of Intellectual Property. To Sellers' Knowledge, the Schaefer Companies' use of the Intellectual Property does not infringe, and there exists no reasonable basis for any claim of infringement, of any patents, trademarks, trade names, service marks, or copyrights of others. There are no pending claims or litigation and, to Sellers' Knowledge, there are no inquiries or investigations challenging or threatening to challenge the Schaefer Companies' right, title and interest with respect to its continued use and right to preclude others from using any such Intellectual Property. To Sellers' Knowledge, no other person is infringing on the Intellectual Property.

3.16 Environmental Matters.

(a) The Sellers have delivered to Purchaser true and correct copies of all environmental reports and assessments with respect to any real property, including without limitation all O&G Properties, now or previously owned, leased or operated by either Schaefer Company.

(b) Except as set forth on Part 3.16 of the Sellers' Disclosure Schedule, as of the Closing Date:

(i)(A) each Schaefer Company has at all times operated in material compliance with all applicable Environmental Laws with respect to any and all real property (other than the O&G Properties) now or previously owned, leased or operated by either of the Schaefer Companies, and (B) to the Knowledge of Sellers, each Schaefer Company has at all times operated in material compliance with all applicable Environmental Laws with respect to the O&G Properties now or previously owned, leased or operated by either of the Schaefer Companies;

(ii)(A) no Schaefer Company has received any notice from a Governmental Authority alleging that either Schaefer Company is not in compliance with applicable Environmental Laws with respect to any and all real property (other than the O&G Properties) now or previously owned, leased or operated by either of the Schaefer Companies, and (B) to the Knowledge of Sellers, no Schaefer Company has received any notice from a Governmental Authority alleging that either Schaefer Company is not in compliance with applicable Environmental Laws with respect to the O&G Properties now or previously owned, leased or operated by either of the Schaefer Companies;

(iii) all licenses and permits currently held by the Schaefer Companies pursuant to Environmental Laws in effect as of the Closing Date are identified on Part 3.16(b)(iii) of the Sellers' Disclosure Schedule, and each of the Schaefer Companies is in compliance in all material respects with such licenses and permits;

(iv) there is no Environmental Claim pending or, to the Knowledge of Sellers, threatened against either of the Schaefer Companies with respect to any real property, including without limitation the O&G Properties, now or previously owned, leased or operated by either of the Schaefer Companies;

(v)(A) there are no Hazardous Substances or underground storage tanks in, on or under any real property (other than the O&G Properties) now or previously owned, leased or operated by either of the Schaefer Companies as of the Closing Date, and (B) to the Knowledge of Sellers, there are no Hazardous Substances or underground storage tanks in, on or under the O&G Properties now or previously owned, leased or operated by either of the Schaefer Companies as of the Closing Date, except (with respect to both (A) and (B) above) those that are both (i) in material compliance with all applicable Environmental Laws and environmental permits and (ii) disclosed on Part 3.16(b)(v) of the Sellers' Disclosure Schedule;

(vi) to the Knowledge of Sellers, there have been and are currently no releases or threatened releases of Hazardous Substances for which either of the Schaefer Companies has had or could have any material liability under any applicable Environmental Law at any real property, including, without limitation, all O&G Properties formerly used, owned, operated or leased by either of the Schaefer Companies; or

(vii) to the Knowledge of Sellers, there are no Hazardous Substances or contaminants located in, on, at, upon or under any surface soil, subsurface soil, surface water, groundwater, building material or any other media of any form or type at, in, on, under or from the O&G Properties, including but not limited to ground water contamination, brine ponds (if any) used to hold well liquids and/or surface contamination from or by oil removed from the wells.

3.17 Transactions with Affiliates. Except as contemplated by this Agreement, neither Schaefer Company is a party to any Contract with any Seller or its Representatives.

3.18 Benefit Plans.

(a) Except for the Existing Plans set forth on Part 3.18(a) of the Sellers' Disclosure Schedule, neither Schaefer Company maintains any other Benefit Plan. Sellers have made available to Purchaser true, complete and accurate copies of each of the Existing Plans, together with copies of any summary plan description thereof and, as applicable, copies of the current plan determination letters and most recent Form 5500 series form filed with respect to each such Existing Plan and most recent trustee or custodian report.

(b) No Existing Plan is a "multiemployer plan" as that term is defined in Section 3(37) of ERISA, nor a "multiple employer welfare arrangement" as that term is defined in Section 3(40) of ERISA, nor a defined benefit plan subject to Title IV of ERISA.

(c) Except as set forth on Part 3.18(c) of the Seller's Disclosure Schedule, each Existing Plan that is an ERISA governed plan (as defined in Sections 3 (1), (2), (3), (37) and (40) of ERISA), is in compliance with all applicable provisions of ERISA and the regulations issued thereunder, and all Existing Plans are in compliance with all other applicable laws, and, in all material respects, have been administered, operated and managed in accordance with the governing documents. All Existing Plans that are intended to qualify (for purposes of this Section 3.18, the "Qualified Plans") under Section 401(a) of the Code have been determined by the Internal Revenue Service to be so qualified. To the extent that any Qualified Plans have not been amended to comply with applicable law, the remedial amendment period permitting retroactive amendment of such Qualified Plans has not expired and will not expire within 120 days after the Closing Date. All Existing Plan reports and other documents required to be filed with any governmental agency or distributed to plan participants or beneficiaries (including, but not limited to, annual reports, summary annual reports, audits or tax returns) have been timely filed or distributed.

As to the items set forth on Part 3.18(c) of the Sellers' Disclosure Schedule concerning the Schaefer 401(k) Plan (the "401(k) Plan") and its violations of the of the Average Deferral Percentage ("ADP") test which may have occurred between January 1, 2000 and January 1, 2006 ("ADP Violations"), on or before the Closing Date Sellers or the Schaefer Companies:

(i) have made all applicable corrections resulting from the ADP violations in accordance with the applicable provisions of the Employee Plan Compliance Resolution System ("EPCRS") as set forth in Revenue Procedure 2006-27; and

(ii) have filed, to the extent required, the applicable Federal excise tax return and paid the ten percent (10%) excise tax required under Code Section 4979, including all applicable penalties and interest, resulting from the ADP violations ; and

(iii) have issued any required Federal Forms 1099 and/or other Federal income tax forms, including filing with the Internal Revenue Service as necessary; and

(iv) have provided Buyer with evidence of such EPCRS required corrections and payment of the applicable excise tax required under Code Section 4979.

If items (i), (ii), (iii) and (iv) above are not satisfied prior to the Closing Date, Sellers covenant and agree that they shall , within thirty days after the Closing Date, take any and all actions required or requested by Buyer necessary to effectuate such EPCRS corrections as to the ADP

violations and, as necessary, filing of the applicable Federal excise tax return and payment of the excise tax, including interest and penalties and issuance and filing of the applicable Forms 1099. Sellers further agree to indemnify Buyer for all costs associated with correction of the ADP failure (including but not limited to 401(k) Plan contributions, excise taxes, interest, penalties, legal fees, administration fees and accounting fees) incurred by the Buyer or the 401(k) Plan in connection with such ADP corrections without regard to the provisions of Section 9.3(d)(i) hereof. The provisions of this Section 3.18(c) are in addition to those indemnification obligations of Sellers set forth in Section 9.3(a) and (b) hereof.

As to the items set forth on Part 3.18(c) of the Sellers' Disclosure Schedule concerning the Schaefer Post-Retirement Health Benefit Plan and the Schaefer Post-Retirement Life Insurance Plan (collectively referred to as the "Retiree Plans"), each and every employee, former employee and/or retiree of either Schaefer Company who is, as of the date of Closing eligible to currently receive or in the future receive a benefits under either Retiree Plan is scheduled on Part 3.18(j) of the Sellers' Disclosure Schedule, and effective as of December 31, 2003 participation into the Retiree Plans has been frozen. To Sellers' knowledge, Seller has made no written or oral representations which would prohibit the Schaefer Companies, or either of them or their successors or assigns, Buyer from amending or terminating either of the Retiree Plans at any time as to all current or future participants in the Retiree Plans.

(d) None of (i) the Sellers, (ii) any Existing Plan or (iii) either Schaefer Company has engaged in any transaction prohibited under the provisions of Section 4975 of the Code or Section 406 of ERISA.

(e) There have been no "reportable events" (as that phrase is defined in Section 4043 of ERISA) with respect to any Existing Plan which was not properly reported.

(f) There have been no terminations, partial terminations or discontinuance of contributions to any Qualified Plan since October 31, 2000 without notice to and approval by the Internal Revenue Service, and as applicable the PBGC and the Schaefer Companies have not incurred liability under Section 4062 of ERISA.

(g) Except as set forth on Part 3.18(g) of the Sellers' Disclosure Schedule, neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (either alone or in conjunction with any other event) result in, cause the accelerated vesting or payment of, or materially increase the amount or value of, any payment or benefit to any employee, officer or director of the Schaefer Companies.

(h) With respect to each Existing Plan, all contributions (including employee salary reduction contributions) and all material insurance premiums that have become due have been paid, and any such expense accrued but not yet due has been properly reflected in the Interim Financial Statements. Except as reflected in the Interim Financial Statements, there is no liability relating to any Benefit Plan that could have a Material Adverse Effect.

(i) The Interim Financial Statements reflect the approximate total pension, medical and other benefit expense for all Existing Plans, and no material funding

changes or irregularities are reflected thereon which would cause such Interim Financial Statements to be not representative of most prior periods.

(j) Except as set forth on Part 3.18(j) of the Sellers' Disclosure Schedule, neither Schaefer Company has any current or future obligations to provide retiree health and retiree life insurance and unfunded death benefits, whether under a Benefit Plan or employment agreement, for current employees, former employees or directors (or the beneficiaries of any current or former employees or directors).

(k) As of the Closing Date, the sole trustees under the Trust are David J. Kostolansky, David A. Rubino and Barry L. Anderson, and no other individuals are authorized or required to act on behalf of the Trust.

3.19 Labor Matters.

(a) Neither Schaefer Company is a party to or bound by any collective bargaining agreements or other union contracts. Within the last three (3) years, no Schaefer Company has experienced any material labor disputes, union organization attempts or work stoppages due to labor disagreements, and there is currently no labor strike, dispute, request for representation, slow down or stoppage actually pending or, to Sellers' Knowledge, threatened against any of the Schaefer Companies.

(b) No Schaefer Company is bound by any Order, settlement or attempt to organize a collective bargaining unit. Sellers have no Knowledge of any employment discrimination, safety or unfair labor practice or other employment-related investigation, claim or allegation against either of the Schaefer Companies or any set of facts which would reasonably be expected to constitute a basis for such an action.

3.20 Undisclosed Liabilities. To the Knowledge of the Sellers, none of the Schaefer Companies has any liability or obligation of the type required to be set forth on their respective balance sheets (and there is no basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against any of them giving rise to any such liability or obligation), except for (i) liabilities or obligations set forth on the face of the Reference Balance Sheet, Interim Balance Sheet or referenced in the notes thereto, and (ii) liabilities or obligations which have arisen after July 31, 2006 in the ordinary course of business (none of which results from, arises out of, relates to, is in the nature of, or was caused by any breach of contract, breach of warranty, tort, infringement, or violation of law).

3.21 Product Warranties; Customers.

(a) Since December 31, 2005, no warranty claim has been paid by any Schaefer Company in excess of \$50,000. There are no pending claims against either Schaefer Company with respect to any warranty applicable to products of such Schaefer Company and, to the Knowledge of Sellers, there is no such claim threatened.

(b) Part 3.21(b) of the Sellers' Disclosure Schedule sets forth (i) the names and addresses of all customers of each Schaefer Company that ordered goods and services with an aggregate value for each such customer of \$50,000 annually or more since December 31,

2003 and (ii) the amount for which each such customer was invoiced during such period. To the Knowledge of the Sellers, and neither Schaefer Company has received any notice (written or otherwise), that any of its customers has terminated or will terminate or has substantially reduced or will substantially reduce its use of products, goods or services of the Schaefer Company, except for such terminations or reduction as would not have a Material Adverse Effect. To the Knowledge of the Sellers, no customer has otherwise threatened to take any action described in the preceding sentence.

3.22 Insurance. Part 3.22 of the Sellers' Disclosure Schedule contains a list of all the insurance coverage (including without limitation all general liability insurance coverage) maintained by or issued to the Schaefer Companies, including the name of the issuer, the policy number, the policy period, limits of liability and any self-insured retentions or deductibles that may apply, and such insurance coverage is in full force and effect with respect to the business of the Schaefer Companies. All premiums on policies due to the Closing Date have been paid, and no notice has been received that any such insurance is in default, will be canceled or not renewed and the Company is otherwise in material compliance with the terms of such policies. There is no material claim pending under any of such policies as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. Except as set forth in Part 3.22 of the Sellers' Disclosure Schedule, the Sellers have no Knowledge of any threatened early termination of, or material premium increase with respect to, any such policies. Part 3.22 of the Sellers' Disclosure Schedule contains a list of all agreements pursuant to which either of the Schaefer Companies has agreed to provide third parties with status as an insured or an additional insured under any insurance policy issued to such Schaefer Company. Part 3.22 of the Sellers' Disclosure Schedule contains a list of all agreements pursuant to which a third party has agreed to provide either of the Schaefer Companies with status as an insured or an additional insured under any insurance policy issued to such third party.

3.23 Books and Records. The books of account, minute books, stock record books and other records of each of the Schaefer Companies, all of which have been made available to the Purchaser, are complete and correct in a material respects and have been maintained in accordance with (i) industry practices standard in the business in which such Schaefer Company is engaged and (ii) its Organizational Documents. The minute books of the Schaefer Companies contain accurate and complete records of all meetings held of and corporate action taken by, the shareholders, the boards of directors (or similar governing body) and committees of the boards of directors of the Schaefer Companies, and no meeting of any such shareholders, board of directors or committee has been held for which minutes have not been prepared and are not contained in such minute books, other than the meeting of the boards of directors of the Schaefer Companies held on or about September 14, 2006, which minutes the Sellers shall promptly provide subsequent to Closing. At the Closing, all of the books and records of the Schaefer Companies will be in the possession of the respective Schaefer Companies.

3.24 Accounts Receivable. All accounts receivable of the Schaefer Companies that are reflected on the Interim Balance Sheet or on the accounting records of the Schaefer Companies as of the Closing Date (for purposes of this Section 3.24, collectively, the "Accounts Receivable") represent or will represent valid obligations arising from sales actually made or services actually performed in the ordinary course of business consistent with past practice.

Part 3.24 of the Sellers' Disclosure Schedule contains a complete and accurate list of all Accounts Receivable as of the date of the Interim Balance Sheet, which list sets forth the aging of such Accounts Receivable. The Accounts Receivable are current and collectible net of the respective reserves shown on the Interim Balance Sheet or accounting records of the Schaefer Companies as of the Closing Date (which reserves are adequate and calculated consistent with past practice and, in the case of the reserve as of the Closing Date, will not represent a greater percentage of the Accounts Receivable as of the Closing Date than the reserve reflected in the Interim Balance Sheet represented of the Accounts Receivable reflected therein and will not represent a material adverse change in the composition of such Accounts Receivable in terms of aging). Subject to such reserves, none of the Accounts Receivable as of the Closing Date have been outstanding for greater than 120 days. To the Knowledge of the Sellers, there is no contest, claim or right of set-off, other than returns in the ordinary course of business, under any Contract with any obligor of an Accounts Receivable relating to the amount of validity of such Accounts Receivable.

3.25 Inventory. All Inventory of the Schaefer Companies, whether or not reflected on the Interim Balance Sheet, consists of a quality and quantity usable and salable in the ordinary course of business, except for obsolete items and items of below-standard quality, all of which have been written off or written down to net realizable value in the Reference Balance Sheet or the Interim Balance Sheet or on the accounting records of the Schaefer Companies as of the Closing Date, as the case may be. All Inventory not written off has been priced at the lower of cost or market on a LIFO basis. The quantities of each item of Inventory are not excessive, but are reasonable in the present circumstances of the Schaefer Companies.

3.26 Computer Systems.

(a) The computer systems (and each part of each of them) used by the Schaefer Companies (for purposes of this Section 3.26, the "Computer Systems") have functioned without any material failures since being installed (except for pre-planned maintenance shut downs and additional development periods).

(b) To the Knowledge of the Sellers, the data storage and transmittal capability, functionality and performance of the Computer Systems as a whole are reasonably satisfactory for the business of the Schaefer Companies.

(c) The Computer Systems are either owned by or properly licensed or leased to a Schaefer Company and, with respect to licensed or leased software and Computer Systems, the Schaefer Companies shall be entitled to use such software and Computer Systems on the same terms as prior to the consummation of the transactions contemplated herein.

(d) Each of the Schaefer Companies has taken commercially reasonable precautions to preserve the availability, security and integrity of the Computer Systems and the data and information stored on the Computer Systems, including, without limitation, the detection and remediation of viruses and bugs.

(e) To the Knowledge of the Sellers, the Computer Systems do not contain third party software or systems which are not available from third party suppliers on arms length commercial terms.

EXCEPT AS EXPRESSLY SET FORTH IN THIS SECTION 3, SELLERS MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, IN RESPECT OF THE COMPANY, EQUIPMENT CO. OR ANY OF THEIR RESPECTIVE ASSETS, LIABILITIES OR OPERATIONS, INCLUDING, WITHOUT LIMITATION, WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, AND ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED.

To the extent that any of the Named Representatives has actual knowledge as of the Closing Date of a breach of any of Sellers' representations or warranties set forth in this Agreement based upon his or her due diligence review of the Schaefer Companies and Purchaser elects to close the transaction notwithstanding such knowledge, Purchaser shall be deemed to have waived such breach of a representation or warranty.

4. REPRESENTATIONS AND WARRANTIES WITH RESPECT TO PURCHASER. Purchaser represents and warrants to Sellers as follows:

4.1 Organizational Matters.

(a) Organization; Power. Purchaser is a corporation duly organized and validly existing under the Laws of the State of Delaware. Purchaser has all requisite power and authority to own, lease and operate all of its properties and assets and to carry on its business as it is now being conducted.

(b) Authorization; Validity. Purchaser has all requisite power and authority to enter into this Agreement and the Ancillary Agreements to which it is a party and to carry out its obligations hereunder and thereunder. The execution and delivery by Purchaser of this Agreement and the Ancillary Agreements to be executed by Purchaser pursuant hereto and the consummation by Purchaser of the transactions contemplated hereby and thereby have been duly authorized by the board of directors of Purchaser. No further act or proceeding on the part of Purchaser is necessary to authorize this Agreement or the Ancillary Agreements to be executed and delivered by Purchaser pursuant hereto or the consummation of the transactions contemplated hereby and thereby. This Agreement and the Ancillary Agreements to which Purchaser is a party have been duly executed and delivered by Purchaser and constitute the valid and legally binding obligations of Purchaser, enforceable against it in accordance with their respective terms except that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or similar laws relating to or affecting creditors' rights generally and enforcement of this Agreement, including among other things the remedy of specific performance and injunctive or other forms of equitable relief, may be subject to equitable defenses and to the discretion of the court before which any action, hearing or similar proceeding therefor may be brought. The execution and delivery of this Agreement and the related Ancillary Agreements and the consummation of the transactions contemplated hereby will not violate or conflict with any Law, order, writ, injunction, judgment, arbitration award or

decree to which Purchaser is bound except for violations, defaults or conflicts which would not have a Material Adverse Effect.

(c) Compliance; Binding Effect. The execution and delivery of this Agreement and the Ancillary Agreements, the purchase of the Shares and the consummation of the transactions contemplated hereby will not: (i) violate any provisions of the Organizational Documents of Purchaser; (ii) constitute a default under, or constitute an event which with the giving of notice or the lapse of time or both would become a default under, any material contract to which Purchaser is a party or by which Purchaser is bound, or (iii) violate or conflict with any Law, Order or other restriction of any kind or character to which Purchaser is subject or by which Purchaser is bound.

4.2 Consents. Except as set forth on Part 4.2 of the Purchaser Disclosure Schedule, no notice to or Consent or Order of any Governmental Authority or any other Person is required in connection with the execution and delivery of this Agreement or the consummation or performance of any of the transactions contemplated by this Agreement.

4.3 Litigation. Except as set forth on Part 4.3 of the Purchaser Disclosure Schedule, there is no Proceeding pending or, to the Knowledge of Purchaser, threatened against Purchaser which questions the legality, validity or propriety of the transactions contemplated by this Agreement or otherwise would adversely affect Purchaser's performance under this Agreement or the consummation of the transactions contemplated hereby.

4.4 Financing. Purchaser has cash reserves or committed financing sufficient to pay the Purchase Price and to consummate the transactions contemplated by this Agreement.

4.5 Investment Representation. Purchaser is purchasing the Shares for its own account with the present intention of holding the Shares for investment purposes and not with a view to or for sale in connection with any public distribution of the Shares in violation of any federal or state securities laws. Purchaser has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the Shares. Purchaser acknowledges that the Shares have not been registered under the Securities Act or any state or foreign securities laws and that the Shares may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of unless such transfer, sale, assignment, pledge, hypothecation or other disposition is registered pursuant to the terms of an effective registration statement under the Securities Act and is registered under any applicable state or foreign securities laws or pursuant to an exemption from registration under the Securities Act and any applicable state or foreign securities laws.

4.6 Disclosure. To the Purchaser's Knowledge, the Purchaser has had full access to the Schaefer Companies' officers, directors, employees, records, physical plants and facilities to the extent the Purchaser has deemed necessary to enable the Purchaser to evaluate the transaction contemplated hereby. The Purchaser has notified Sellers in writing of any breach or default by Sellers under this Agreement of which the Named Representatives had actual knowledge prior to the Closing Date.

4.7 No Knowledge of Misrepresentations or Omissions. Except as notice has been provided under Section 4.6, the Named Representatives have no actual knowledge of any breach of this Agreement by Sellers as of the Closing Date.

5. CLOSING.

5.1 Sellers' Deliveries. Sellers shall deliver to Purchaser at or prior to Closing the following:

(a) at least ten (10) days prior to the Closing Date a commitment (the "Title Commitment") for an ALTA owner's policy of title insurance, issued by Chicago Title Insurance Company (for purposes of this Section 5.2, the "Title Company"), in an amount not less than \$5,500,000 (without deduction for any applicable transfer fees), committing the Title Company to insure the Schaefer Companies' fee ownership interest in the Owned Real Estate, and accompanied by legible copies of all underlying documents noted in the Title Commitment, which Title Commitment shall be satisfactory in all respects to Purchaser.

(b) certificate(s) representing the Shares, duly endorsed in blank by Sellers or accompanied by stock powers duly endorsed in blank;

(c) certificates of status with respect to the Company, issued by the Wisconsin Department of Financial Institutions, dated no earlier than 15 days prior to the Closing Date;

(d) certificates of status with respect to Equipment Co., issued by the Secretary of State of Ohio, dated no earlier than 15 days prior to the Closing Date;

(e) *[reserved]*;

(f)(A) certificates from each Seller which is not a natural person, dated as of the Closing Date and signed on its behalf by its secretary or assistant secretary (or other comparable agent or representative), certifying the (i) the names, true signatures and incumbency of its officers, (ii) adoption of resolutions of such Seller's board of directors (or other governing body) authorizing such Seller's execution, delivery and performance of this Agreement and the Ancillary Agreements and (to the extent applicable) (iii) termination of the agreements referred to in subsection (j) below and (B) certificate of the Company as to the incumbency of the Trustees under the Schaefer 401(k) Plan;

(g) written resignations of all directors and officers of the Company and its Subsidiaries;

(h) the written resignation of David J. Kostolansky as employee of the Equipment Co.;

(i) opinions of counsel to the Company and the Sellers in form and substance satisfactory to Purchaser;

(j) each of the Schaefer Companies shall have terminated any and all agreements between (i)(A) any and all Sellers or (B) any former shareholders of a Schaefer Company and (ii) such Schaefer Company, including without limitation the Bonus Plan; *provided, however*, that any agreements or provisions thereof by which a Schaefer Company is required to indemnify, defend or hold harmless any officer or director of such Schaefer Company in respect of his or her services as such shall terminate in accordance with their terms;

(k) from each beneficiary of the Bonus Plan, an executed release in form and substance satisfactory to Purchaser (the "Bonus Plan Releases");

(l) the Escrow Agreement duly executed by the Sellers' Agent; and

(m) the Wabtec Corporation Employee Non-Competition and Confidentiality Agreements executed by each of Barry L. Anderson, Philip D. Oswald, Richard J. Barnhart and David A. Rubino.

5.2. Purchaser's Deliveries. Purchaser shall deliver to Sellers at or prior to Closing the following:

(a) certificate from Purchaser dated as of the Closing Date and signed on its behalf by its secretary or assistant secretary (or other comparable agent or representative), certifying the (i) the names, true signatures and incumbency of its officers, and (ii) adoption of resolutions of Purchaser's board of directors authorizing Purchaser's execution, delivery and performance of this Agreement and the Ancillary Agreements

(b) the Closing Payment as provided in Section 2.3 of this Agreement;

(c) a Certificate of Good Standing with respect to Purchaser issued by the Secretary of State of the State of Delaware dated no earlier than 15 days prior to the Closing Date;

(d) the Consents identified in Part 4.2 of the Purchaser Disclosure Letter; and

(e) the Escrow Agreement duly executed by Purchaser and Escrow Agent.

6. TAX MATTERS.

6.1 Allocation of Tax Liabilities; Indemnification.

(a) Sellers shall, jointly and severally, be liable for and shall hold Purchaser harmless against any liability for Taxes of the Sellers, the Company or the Equipment Co. for any taxable year or other taxable period that begins before the Closing Date and, in the case of any taxable year or other taxable period that includes the Closing Date (a "Straddle Period"), that part of the taxable year or other taxable period that begins before the Closing Date. Purchaser shall be liable for and shall hold Sellers harmless against any liability for Taxes of Purchaser, the Company and the Equipment Co. for any taxable year or other taxable period that

begins after the Closing Date and, in the case of a Straddle Period, that part of the taxable year or other taxable period that begins after the Closing Date. The provisions of this Section 6.1(a) are in addition to those indemnification obligations of Purchaser set forth in Section 9.2(a) and of Sellers set forth in Section 9.3(a) and (b) hereof.

(b) Whenever it is necessary for purposes of this Section 6.1 to determine the liability for Taxes for a Straddle Period, the determination shall be made by assuming a taxable year or other period which ended at the close of business on the Closing Date, except that exemptions, allowances or deductions that are calculated on an annual basis (such as the deduction for depreciation) shall be apportioned on a time basis.

(c) Each Party shall promptly notify the other Party in writing upon receipt by such Party of notice of any pending or threatened audits or assessments relating to Taxes for which such other Party would be required to indemnify pursuant to this Agreement

(d) Sellers shall have the sole right to represent the Sellers', the Company's and the Equipment Co.'s interest in any audit or administrative or court proceeding relating to any such Tax that the Sellers are required to indemnify pursuant to this Agreement except for a Straddle Period and to employ counsel of their choice at their sole expense. Purchaser shall have the sole right to represent the Purchaser's, the Company's and the Equipment Co.'s interest in any audit or administrative or court proceeding relating to any such Tax that the Purchasers are required to indemnify pursuant to this Agreement including a Straddle Period and to employ counsel of its choice at its sole expense. Notwithstanding the foregoing, a Party shall not be entitled to settle, either administratively or after the commencement of litigation, any claim for such Taxes that would materially adversely affect the liability of the other Party for such Taxes without the prior written consent of such other Party, which consent shall not be unreasonably withheld, conditioned or delayed. If Sellers elect not to assume the defense of any claim for such Taxes which may be the subject of indemnification by Sellers pursuant to this Agreement or with respect to a Straddle Period, Sellers shall be entitled to participate in such defense at their sole expense. Neither Purchaser nor the Company nor the Equipment Co. may agree to settle any claim for such Taxes that may be the subject of indemnification by Sellers under this Agreement without the prior written consent of Sellers' Agent, which consent shall not be unreasonably withheld, conditioned or delayed.

6.2 Returns and Reports.

(a) Sellers' Agent shall file or cause to be filed when due all Tax Returns with respect to Taxes that are required to be filed by or with respect to the Company and the Equipment Co. for taxable years or periods ending on or before the Closing Date and shall pay any Taxes due in respect of such Tax Returns. Purchaser shall file or cause to be filed when due all Tax Returns with respect to Taxes that are required to be filed by or with respect to the Company and the Equipment Co. for taxable years or periods ending after the Closing Date and shall pay any Taxes due in respect of such Tax Returns, subject to Section 6.1(a) above with respect to Straddle Periods.

(b) With respect to any such Tax Return for a Straddle Period, a copy of such Tax Return shall be provided to Sellers' Agent within 30 calendar days prior to the due

date (including extensions) for the filing thereof, and Sellers' Agent shall have the right to approve (which approval shall not be unreasonably withheld, conditioned or delayed) such Tax Return to the extent it relates to the portion of the period ending on the Closing Date. Sellers' Agent shall promptly pay to Purchaser the amount of Taxes attributable to such period (as determined pursuant to Section 6.1(b) above) at the time such Tax Return is filed.

6.3 Cooperation; Access to Records. After the Closing Date, Sellers and Purchaser shall:

(a) assist (and cause their respective affiliates to assist) the other Party in preparing any Tax Returns or reports which such other Party is responsible for preparing and filing in accordance with Section 6.2;

(b) cooperate fully in preparing for and conducting any audits of, or disputes with taxing authorities regarding, any Tax Returns covered in this Article 6;

(c) make available to the other Party and to any taxing authority as reasonably requested all applicable records, documents, accounting data and other information relating to Taxes and Tax Returns covered in this Article 6;

(d) furnish the other Party with copies of all correspondence received from any taxing authority in connection with any tax audit or information request with respect to any such taxable period for which the other Party may have a liability under Section 6.1; and

(e) execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this Article 6.

6.4 Refunds. Any refunds (including interest thereon) of Taxes paid or indemnified by Sellers pursuant to this Agreement or for which a reserve was included on the Reference Balance Sheet shall be for the account of Sellers. Any refunds (including interest thereon) of Taxes paid or indemnified by Purchaser pursuant to this Agreement (other than those for which a reserve was included on the Reference Balance Sheet) shall be for the account of Purchaser. Purchaser agrees to assign and promptly remit (and to cause the Company and the Equipment Co. to assign and promptly remit) to Sellers' Agent all refunds (including interest thereon) of Taxes which any Seller is entitled to hereunder and which are received by Purchaser or any of its affiliates. Sellers agree to assign and promptly remit to Purchaser all refunds (including interest thereon) of Taxes which Purchaser is entitled to hereunder and which are received by any Seller or any of its affiliates.

6.5 Disputes. If Purchaser and Sellers' Agent cannot agree on any calculation required to be made under this Article 6, Purchaser and Sellers' Agent shall direct the Unrelated Accountant to make such calculation as promptly as practicable, but in any event not later than 30 calendar days after such direction, and to deliver a written notice to each of Purchaser and Sellers' Agent setting forth the results of such calculation. The results of such calculation as made by the Unrelated Accountant shall be final and binding, and the fees and expenses of the Unrelated Accountant shall be paid 50% by Purchaser and 50% by Sellers.

6.6 Price Adjustment. Purchaser and Sellers agree that any payment made under this Article 6 will be treated by the Parties on its Tax Returns as an adjustment to the Purchase Price.

6.7 Survival; Indemnification. Any amounts owed to Purchaser pursuant to this Article 6 shall be subject to the provisions of Article 9 hereof.

7. COVENANTS OF PURCHASER AND SELLERS.

7.1 Access to Books and Records. Purchaser hereby covenants and agrees to maintain in a reasonably accessible place, during the three (3) year period after the Closing, the books and records made available by Sellers hereunder relating to the Company or Equipment Co. and to provide copies of such books and records to Sellers or their representatives upon request, for any reasonable purpose, at Sellers' expense.

7.2 Reporting Assistance. Purchaser agrees to cooperate with Sellers in preparing information for various authorities after the Closing Date. This information includes, but is not limited to, accounting and tax workbooks, responses to audit requests and other filings with tax authorities. Sellers agree to provide the same reporting assistance to Purchaser.

7.3 Insurance Policies; Employee Benefits. Sellers agree to cooperate with and assist Purchaser with any and all efforts to obtain copies of (i) insurance policies previously issued to the Schaefer Companies, (ii) employee benefit plans previously adopted by the Schaefer Companies and/or (iii) information regarding the terms and conditions of such insurance policies or employee benefit plans.

8. MUTUAL COVENANTS AND WARRANTIES.

8.1 Publicity. No public announcement or other publicity regarding the transactions referred to herein shall be made by any Party hereto without the prior written approval of all Parties hereto as to form, timing and manner of distribution or publication, except to the extent otherwise required by Law on written advice of counsel. Unless such disclosure is required by applicable Law, no press release or public communication shall disclose the Purchase Price.

8.2 Brokerage. Sellers and Purchaser respectively warrant to each other, as to the warranting Party's conduct and commitments, that no Person provided services as a broker, agent or finder in connection with the transactions contemplated hereby, other than Cleary Gull Inc. which provided investment banking and business brokerage services to Sellers, the Company and Equipment Co. Sellers and Purchaser shall respectively indemnify the other Party for any claim asserted by any other Person purporting to act on behalf of the respective indemnitor as a broker, agent or finder in connection with the transactions contemplated hereby.

8.3 Other Documents. Each party agrees to deliver such other documents as the other party may reasonably request for the purpose of facilitating the consummation or performance of any of the transactions contemplated by this Agreement.

9. SURVIVAL; INDEMNIFICATION.

9.1 Survival.

(a) Each and every agreement and covenant (other than those set forth in Articles 6, 9, 10, 12 and 13 hereof) made by the Sellers or Purchaser in this Agreement, in any exhibits or schedules to this Agreement, or in any Disclosure Schedules, Ancillary Agreements, or instruments of transfer delivered hereunder shall survive the Closing for a period of thirty-six (36) months after the Closing Date and thereafter be of no further force and effect. Except as otherwise set forth in this Section 9.1, each and every representation and warranty made by the Sellers or Purchaser in this Agreement, in any exhibits or schedules to this Agreement, or in the Sellers' Disclosure Schedules, Ancillary Agreements, or instruments of transfer delivered hereunder (other than those in Sections 3.1, 3.2, 3.3, 3.11(a), 3.12(a), 3.13 or 3.16 or Article 6) shall terminate on the date that is eighteen (18) months after the Closing Date and thereafter be of no further force or effect; *provided*, that (i) a claim pursuant to this Article 9 under Section 3.1, 3.2 or 3.3 may be made at any time; (ii) a claim made pursuant to this Article 9 under Section 3.13 or Article 6 may be made at any time prior to the expiration of the applicable statute of limitations and (iii) a claim made pursuant to this Article 9 under Sections 3.11(a), 3.12(a) or 3.16 may be made at any time prior to the third anniversary of the Closing Date (the date on which any covenant, agreement, representation or warranty terminates in accordance with this Article 9 being referred to herein as the "Cut-off Date" for such covenant, agreement, representation or warranty).

(b) *[Reserved]*

(c) Any representation, warranty, covenant or agreement that would otherwise terminate at the Cut-off Date with respect thereto shall survive if the notice referred to in Section 9.2(b) or Section 9.3(c), as the case may be, of the breach, inaccuracy, default or nonperformance thereof shall have been given on or prior to the Cut-off Date with respect thereto to the Party against whom indemnification may be sought.

9.2 Indemnification by Purchaser.

(a) From and after the Closing Date, Purchaser shall indemnify and hold Sellers, and each of them, harmless from and against any and all Losses incurred or sustained by, or imposed upon, Sellers, or any of them, with respect to or by reason of (i) any breach of any representation or warranty made by Purchaser in Section 4 of this Agreement at and as of the Closing Date (or at and as of such different date or period specified in such representation or warranty), (ii) any breach by Purchaser of any of its agreements or covenants contained in this Agreement or (iii) any fact, event or circumstance occurring after the Closing Date that would give rise to or result in a Third Party Claim against the Sellers.

(b) **Maximum Amount of Purchaser's Indemnification.** In no event shall the aggregate liability of the Purchaser with respect to all of Seller's claims for indemnification under this Section 9.2 (other than those based upon breaches of Section 4.1, Article 6 or claims based upon fraud) exceed, in the aggregate, Five Million Dollars (\$5,000,000.00).

(c) Notwithstanding anything to the contrary in this Agreement, Sellers shall not be entitled to indemnification under Section 9.2(a) with respect to any claim for indemnification thereunder, unless any Seller or Sellers' Agent has given Purchaser written notice of such claim in reasonable specificity prior to the applicable Cut-off Date.

9.3 Indemnification by Sellers.

(a) From and after the Closing Date, Sellers shall, jointly and severally, indemnify and hold Purchaser, the Company and their respective Representatives, shareholders and controlling Persons (for purposes of this Article 9, collectively, the "Purchaser Indemnified Persons") harmless from and against any and all Losses (including without limitation any Environmental Losses) incurred or sustained by, or imposed upon, directly or indirectly, such Purchaser Indemnified Person with respect to, by reason of or arising out of (i) any breach of any representation or warranty made by the Sellers contained in this Agreement, (ii) any breach by the Schaefer Companies of any of their covenants or obligations contained in this Agreement or (iii) (A) the Warrant Repurchase Agreement, (B) that certain Amended and Restated Note and Warrant Purchase Agreement dated as of May 4, 2005, as amended, supplemented or otherwise modified through the date hereof, between the Company and BOCP, together with each of the Transaction Documents (as defined therein), (C) the Bonus Plan Releases; (D) that certain Waiver and Termination Agreement dated as of the date hereof by and among the Company, CCP, the Trust, each of Messrs. Kostolansky, Anderson, Rubino and Barnhart and BOCP with respect to the Shareholder Agreement (as defined therein) and (E) that certain Waiver and Termination Agreement dated as of the date hereof by and among the Company and each of Messrs. Kostolansky, Anderson, Rubino and Barnhart with respect to the SAR Plan (as defined therein).

(b) From and after the Closing Date, each Seller hereby agrees individually and severally (based on each such Seller's pro rata portion of the Final Purchase Price) to indemnify and hold the Purchaser Indemnified Persons harmless from and against any and all Losses incurred or sustained by or imposed upon, directly or indirectly, such Purchaser Indemnified Person with respect to, by reason of or arising from or in connection with (i) any breach of a representation or warranty made by that Seller contained in the Agreement or (ii) any breach of any covenant or obligation of that Seller in this Agreement.

(c) Notwithstanding anything to the contrary in this Agreement, the Purchaser Indemnified Persons shall not be entitled to indemnification under Section 9.3(a) or (b):

(i) in connection with any claim for indemnification hereunder with respect to which Purchaser or either of the Schaefer Companies has an enforceable contractual right of indemnification or right of set-off against any third party and Purchaser is enjoined by a court of competent jurisdiction or otherwise legally prevented from assigning any such rights to Seller;

(ii) to the extent of the value of any net Tax benefit (less any tax burden imposed on Purchaser by any indemnity amount paid in excess of such net Tax benefit) realized (by reason of a Tax deduction, basis reduction, shifting of income, credits

and/or deductions or otherwise) by Purchaser or either of the Schaefer Companies in connection with the Losses that form the basis of Purchaser's claim for indemnification hereunder;

(iii) with respect to any claim for indemnification hereunder, unless Purchaser has given the written notice to Sellers' Agent of such claim, setting forth in reasonable detail the facts and circumstances pertaining thereto prior to the applicable Cut-off Date;

(iv) to the extent of the proceeds received by Purchaser or either of the Schaefer Companies in respect of any insurance claim under which Purchaser or either of the Schaefer Companies is entitled in connection with the facts giving rise to such indemnification; *provided*, that the Purchaser Indemnified Persons shall be entitled to indemnification with respect to any Losses incurred by Purchaser in pursuing any such insurance claim without regard to the provisions of subsection (d)(i) hereof ; and

(v) to the extent the Loss is reserved for in the Final Closing Balance Sheet.

(d) In addition to the provisions of subsection (c) above and subject to the provisions of subsection (h) below, the indemnification obligations of Sellers under this Agreement shall be limited as follows:

(i) Basket. Unless otherwise provided herein, the Sellers shall not be required to provide indemnification under this Section 9.3 unless the Losses for all of Purchaser's claim(s) for indemnification (other than those based upon breaches of Sections 3.1, 3.2, 3.3 or 3.13, Article 6 or claims based upon fraud) shall exceed in the aggregate an amount equal to one-half of one percent (0.5%) of the sum of the Base Amount plus the amount of Final Closing Cash (the "Basket Amount"), after which the Sellers shall be liable for the full amount of Losses in excess of the Basket Amount.

(ii) Maximum Amount of Sellers' Indemnification. In no event shall the aggregate liability of the Sellers with respect to all of Purchaser's claims for indemnification under this Section 9.3 (other than those based upon breaches of Sections 3.1, 3.2, 3.3 or 3.13, Article 6 or claims based upon fraud) exceed, in the aggregate, Five Million Dollars (\$5,000,000.00); *provided*, that Seller's failure to satisfy any or all of the Closing Funded Debt shall not be credited toward such maximum indemnification nor be subject to any maximum indemnification limit. The Sellers shall be liable for the full amount of Losses arising out of breaches of Sections 3.1, 3.2, 3.3 and 3.13, Article 6 and claims based upon fraud; *provided*, that the Sellers' liability for Losses arising out of breaches of Sections 3.1, 3.2, 3.3 and 3.13 and Article 6 shall not exceed, in the aggregate, the Purchase Price.

(e) Notwithstanding anything to the contrary in this Agreement, the obligation of Sellers with respect to Environmental Losses and breaches of the representations and warranties contained in Section 3.16 of this Agreement shall be subject to the following additional limitations:

(i) Neither Purchaser nor its consultants, contractors, agents or representatives shall perform or undertake after the Closing Date any investigation or sampling

of any Hazardous Substance or contaminants in, on, at upon or under any surface soil, subsurface soil, surface water, groundwater, building material or any other media of any form or type at, in, on, under or from the Real Estate (collectively "Media") except to the extent that Purchaser, in its sole discretion, concludes that an investigation and/or sampling of any Media is (A) done in connection with a future sale of the Real Estate by Purchaser to a bona fide third party purchaser; (B) done in connection with a bona fide third party financing transaction in which Purchaser or any of its affiliates is the borrowing entity; (C) warranted by any future construction or development on the Real Estate by Purchaser (and then only to the extent related to the area of construction or development); (D) required by Law or (E) done in connection with a response to a bona fide Third Party Claim asserting liability for the Release of Hazardous Substances at the Real Estate (items (A) through (E) referred to as "Permissible Activities").

(ii) Any Environmental Losses incurred or sustained by or imposed upon the Purchaser Indemnified Persons other than as a result of the Permissible Activities shall, after giving effect to subsection (d)(i) hereof, be borne in the proportion of twenty-five percent (25%) by Purchaser and seventy-five percent (75%) by Sellers.

(iii) With respect to Sellers' indemnification obligations for Environmental Losses under Section 9.3(a) or (b) above as a result of a breach of a representation or warranty set forth in Section 3.16 above or otherwise, Purchaser shall:

(A) provide Sellers or their Representatives access to the applicable Real Estate so that Sellers may conduct their own investigation, testing or corrective action with respect to the matter;

(B) immediately provide Sellers with the results, including analytical data, of any investigation or testing conducted by Purchaser or, if available to Purchaser, any third party;

(C) give Sellers the right to participate in any discussions or negotiations with any Governmental Authority concerning such matter;

(D) if Remediation Action is required in any such matter, give Sellers the right to develop and implement a plan of corrective action, such plan to be paid for by Sellers and be subject to Purchaser's approval, and, if requested by Sellers, cooperate with Sellers in the development and implementation of such plan on a cost effective basis; any such plan of action may, to the extent permitted under Environmental Laws, be based on the industrial use of the property and may rely on and utilize institutional controls (such as web-based GIS registrations, deed notices or restrictions) and shall contain reasonable steps so as to minimize disruption of or adverse effect on the ongoing operations of the business of the Schaefer Companies; and

(E) cooperate fully and in good faith with Sellers in performing such tasks as Sellers and their technical professionals and Representatives may reasonably request as being necessary to complete any Remediation Action being undertaken by Sellers pursuant to this Agreement; and Purchaser shall promptly execute any and all documentation necessary or requested to facilitate "case closure" or a similar acknowledgement

by any Governmental Authority having jurisdiction over the matter and, furthermore, without limiting the scope of the foregoing, Purchaser shall cause its employees to cooperate fully with Sellers and to afford Sellers, their agents, employees and technical professionals access to relevant records relating to the matters which may be Sellers' responsibility under this Agreement;

(iv) Upon issuance of a "No Further Action" ("NFA") letter or similar acknowledgement from a Governmental Authority having jurisdiction over a particular Remediation Action, all obligations of Sellers under this Agreement with respect to the applicable Environmental Losses for that particular Remediation Action, if any, shall be terminated and concluded to the extent such NFA letter releases Purchaser from all future liability with regard to such matter.

(f) If Purchaser is indemnified under this Section 9.3 with respect to any Losses incurred or sustained by it as a result of the breach of the representation and warranty made by Sellers in the penultimate sentence of Section 3.24 (relative to Accounts Receivable outstanding for greater than 120 days), Purchaser shall assign its right to any such Account Receivable to Sellers.

(g) Indemnification amounts finally determined to be payable by Sellers shall be satisfied first from the Escrow Amount to the extent available. The Escrow Agreement shall continue for three years except as extended with respect to pending claims as set forth in the Escrow Agreement. The funds being held in escrow shall be disbursed as follows: (i) one-third of the amount then held in the escrow fund shall be released to Sellers at the one year anniversary of the Closing Date; (ii) one-half of amount then held in the escrow fund shall be released to Sellers at the two year anniversary of the Closing Date and (iii) the remainder of the funds held in the escrow fund shall be released at the third anniversary of the Closing Date except as may be extended as set forth in the Escrow Agreement. Procedures for obtaining disbursements of the amounts held in the escrow fund shall be as set forth in the Escrow Agreement.

(h) The indemnification obligations of Sellers under subsection 9.3(a)(iii) above shall be without regard to the provisions of subsection (d) hereof.

9.4 Procedures for Indemnification.

(a) Subject to Section 9.5, if a Party seeking indemnification pursuant to this Section 9 (an "Indemnified Party") shall claim to have suffered a Loss for which indemnification is available under Sections 9.2 or 9.3, as the case may be (for purposes of this Section 9.4, regardless of whether such Indemnified Party is entitled to receive a payment in respect of such claim), the Indemnified Party shall notify the Party from whom indemnification with respect to such claim is sought (the "Indemnifying Party") in writing of such claim within the applicable Cut-Off Date, which written notice shall describe the nature of such claim, the facts and circumstances that give rise to such claim to the extent then known by the Indemnified Party and the amount of such claim if reasonably ascertainable at the time such claim is made (or if not then reasonably ascertainable, the maximum amount of such claim reasonably estimated by the Indemnified Party).

(b) In the event of a claim by an Indemnified Party involves Losses that do not result from a Third-Party Claim, then the Parties shall follow the procedures set forth in Section 10 with respect to the resolution of such matter.

9.5 Procedures for Third-Party Claims.

(a) Any Indemnified Party seeking indemnification pursuant to this Section 9 in respect of any Proceeding instituted by any third Person (in each case, a "Third-Party Claim") shall give the Indemnifying Party from whom indemnification with respect to such claim is sought (i) prompt written notice (but in no event more than ten (10) days after the Indemnified Party acquires knowledge thereof) of such Third-Party Claim and (ii) copies of all documents and information relating to any such Third-Party Claim within ten (10) days of their being obtained by the Indemnified Party; *provided*, that the failure by the Indemnified Party to so notify or provide copies to the Indemnifying Party shall not relieve the Indemnifying Party from any liability to the Indemnified Party for any liability hereunder except to the extent that such failure shall have actually prejudiced the defense of such Third-Party Claim.

(b) The Indemnifying Party shall have the right, at its option and expense, to defend against, negotiate, settle or otherwise deal with any Third-Party Claim with respect to which it is the Indemnifying Party and to be represented by counsel reasonably acceptable to the Indemnified Party (unless (i) the Indemnifying Party is also party to such Proceeding and the Indemnified Party determines in good faith that joint representation would be inappropriate or (ii) the Indemnifying Party fails to provide reasonable assurance to the Indemnified Party of its financial capacity to defend such Proceeding and provide indemnification with respect to such Proceeding). The Indemnifying Party shall notify the Indemnified Party of its election to assume the defense of such Proceeding and thereafter neither the Indemnifying Party nor the Indemnified Party will admit any liability with respect thereto or settle, compromise, pay or discharge the same without the written consent of the other party. The Indemnified Party may participate in any Third-Party Claim with counsel of its choice and at its expense. If notice is given to an Indemnifying Party of the commencement of any Proceeding and the Indemnifying Party does not, within twenty days after such notice is given, give notice to the Indemnified Party of its election to assume the defense of such Proceeding, the Indemnified party (upon further notice to the Indemnifying Party) will have the right to undertake the defense, compromise or settlement of such Proceeding and the Indemnifying Party will be bound by any determination made in such Proceeding or any compromise or settlement effected by the Indemnified Party. Notwithstanding the foregoing, if an Indemnified Party determines in good faith that there is a reasonable probability that a Proceeding may adversely affect it or its affiliates other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, the Indemnified Party may, by written notice to the Indemnifying Party, assume the exclusive right to defend, compromise or settle such Proceeding, but the Indemnifying Party will not be bound by any determination of a Proceeding so defended or any compromise or settlement effected without its written consent.

(c) If a firm good faith written offer is made to settle any such Third-Party Claim and the Indemnifying Party proposes to accept such settlement and the Indemnified Party refuses to consent to such settlement, then: (i) the Indemnifying Party shall be excused from, and the Indemnified Party shall be solely responsible for, all further defense of such

Third-Party Claim; (ii) the maximum liability of the Indemnifying Party relating to such Third-Party Claim shall be the amount of the proposed settlement if the amount thereafter recovered from the Indemnified Party on such Third-Party Claim is greater; and (iii) the Indemnified Party shall pay all attorneys' fees and legal costs and expenses incurred after rejection of such settlement by the Indemnified Party, but if the amount thereafter recovered by such third party from the Indemnified Party is less than the amount of the proposed settlement, the Indemnified Party shall be reimbursed by the Indemnifying Party for such attorneys' fees and legal costs and expenses up to a maximum amount equal to the difference between the amount recovered by such third party and the amount of the proposed settlement.

(d) Purchaser and Sellers shall make available to each other, their counsel and accountants all information and documents reasonably available to them which relate to any claim subject to indemnity hereunder and to render to each other such assistance as may reasonably be required in order to ensure the proper and adequate defense of any such claim.

(e) If required for joinder purposes, the Sellers and Purchaser hereby consent to the non-exclusive jurisdiction in which a Proceeding is brought against any Indemnified Party for purposes of any claim that an Indemnified Party may have under this Agreement with respect to such Proceeding or the matters alleged therein and agree that process may be served on the Sellers and Purchaser with respect to such claim anywhere in the world.

9.6 Exclusive Remedy. In the absence of fraud, bad faith or willful breach, the indemnification obligations of Purchaser and Sellers under this Section 9 shall constitute the sole and exclusive remedies of Sellers and Purchaser, respectively, and their respective Representatives, shareholders and controlling Persons, for the breach of any covenant, agreement, representation or warranty included in this Agreement by the Sellers or Purchaser, as the case may be, and Sellers and Purchaser shall not be entitled to rescission of this Agreement or to any further indemnification rights or claims of any nature whatsoever in respect thereof, all of which Purchaser and Sellers waive.

10. DISPUTE RESOLUTION

10.1 Dispute. As used in this Agreement, "Dispute" shall mean any dispute or disagreement between Purchaser and Sellers concerning the interpretation of this Agreement, the validity of this Agreement, any breach or alleged breach by any Party under this Agreement or any other matter relating in any way to this Agreement; *provided*, that "Dispute" shall not include any dispute (i) relating to the Preliminary Closing Balance Sheet, which shall be resolved in accordance with Section 2.4(f), (ii) arising under Article 6 hereof, which shall be resolved in accordance with Section 6.5 or (iii) any dispute arising under Section 12 of this Agreement.

10.2 Process. If a Dispute arises, the Parties to the Dispute shall follow the procedures specified in Sections 10.3, 10.4 and 10.5.

10.3 Negotiations. The Parties shall promptly attempt to resolve any Dispute by negotiations between Purchaser and Sellers' Agent. Purchaser or Sellers' Agent, as the case may be, shall give the other Party written notice (the "Dispute Notice") of any Dispute not

resolved in the normal course of business. Purchaser and Sellers' Agent (or their Representatives) shall meet at a mutually acceptable time and place within thirty (30) days after receipt of the Dispute Notice by the party to whom such Notice was delivered, and thereafter as often as they reasonably deem necessary, to exchange relevant information and to attempt to resolve the Dispute. If Purchaser or Sellers' Agent intends to be accompanied at any such meeting by legal counsel, the other Party shall be given at least three (3) Business Days' prior written notice of such intention and may also be accompanied by legal counsel. If the Dispute has not been resolved by the Parties (A) within ninety (90) days of receipt of a Dispute Notice, or (B) if the Parties fail to meet within thirty (30) days of receipt of such Dispute Notice, either Purchaser or Sellers' Agent may initiate binding arbitration as provided in Section 10.4.

10.4 Arbitration. If the Dispute is not resolved by negotiations pursuant to Section 10.3, all Disputes shall be determined by binding arbitration in Chicago, Illinois in accordance with the commercial rules of the AAA then in effect unless the parties mutually agree in writing to waive this provision. This agreement to arbitrate shall be specifically enforceable under the laws of the State of Illinois. The Party initiating arbitration shall file written notice of the demand for arbitration with the other Party to the Dispute and with the AAA in Chicago, Illinois. Such demand for arbitration shall be made within sixty (60) days after the expiration of the applicable time period set forth in the last sentence of Section 10.3, and in no event shall such demand be made after the date when an institution of legal or equitable proceedings based upon such Dispute would be barred by this Agreement or the applicable statute of limitations. The arbitration shall be before a single arbitrator chosen in accordance with the rules of the AAA, who shall interpret this Agreement in accordance with the internal laws of the Commonwealth of Pennsylvania without reference to any rule or provision thereof which would cause the application of the law of any other state. The award rendered by the arbitrator shall be final and binding and may not be appealed, and any judgment may be entered upon it in accordance with the applicable law in any court having jurisdiction thereof. In no event shall any Party be awarded punitive damages.

10.5 General.

(a) Provisional Remedies. At any time during the procedures specified in Sections 10.3 and 10.4, a Party may seek a preliminary injunction or other provisional judicial relief in the courts of Cook County, Illinois or the U.S. District Court for the Northern District of Illinois if in the judgment of such party such action is necessary to avoid irreparable harm. Each party hereto consents to the exclusive jurisdiction of such courts with respect to this Section 10.5 and waive any objection to venue laid therein. Process in any Proceeding referred to in this Section 10.5 may be served on any party anywhere in the world.

(b) Performance to Continue. Each Party shall use its commercially reasonable efforts to perform its obligations under this Agreement pending final resolution of any Dispute.

(c) Extension of Deadlines. All deadlines specified in this Section 10 may be extended by mutual written agreement between Purchaser and Sellers' Agent.

(d) **Enforcement.** The Parties regard the obligations in this Section 10 to constitute an essential provision of this Agreement and one that is legally binding on them. In case of a violation of the obligations in this Section 10 by either Purchaser or any of Sellers or the Sellers' Agent, the other Party may bring an action to seek enforcement of such obligations in any court of law having jurisdiction thereof.

(e) **Costs.** The Parties to the dispute shall pay their own costs, fees, and expenses incurred in connection with the application of the provisions of this Section 10, and fifty percent (50%) of the fees and expenses of the AAA and the arbitrator in connection with the application of the provisions of Section 10.4.

10.6. **Waiver of Jury Trial.** In any court action under this Section 10 as contemplated above (whether to enforce an arbitration award as contemplated in Section 10.4, to seek provisional remedies as contemplated in Section 10.5(a), to enforce the arbitration provisions contained in this Section 10 as contemplated in Section 10.5 (d), or otherwise), the Purchaser and Sellers hereby voluntarily, knowingly, irrevocably and unconditionally waive any right to have a jury participate in resolving the dispute which is the subject of such court action.

11. [RESERVED]

12. NONCOMPETITION.

12.1 **Acknowledgments by Shareholders.** Each Seller acknowledges, to the extent applicable to such Seller, that:

(a) such Seller has occupied a position of trust and confidence with the Company prior to the Closing Date and has become familiar with the Information;

(b) Purchaser has required that each Seller make the covenants set forth in Sections 12.2 and 12.3 as a condition to the Purchaser's purchase of the Shares;

(c) the provisions of Sections 12.2 and 12.3 are reasonable and necessary to protect and preserve the Company's business; and

(d) the Company would be irreparably damaged if any Seller were to breach the covenants set forth in Sections 12.2 and/or 12.3.

12.2 **Confidential Information.** Each Seller acknowledges and agrees that all Information known or obtained by such Seller, whether before or after the Closing Date, is the property of the Company. Therefore, each Seller agrees that such Seller will not, at any time, disclose to any unauthorized Persons or use for its or his own account or for the benefit of any Person any Information, whether such Seller has such Information in its or his memory or embodied in writing or other physical form, without Purchaser's prior written consent. Each Seller agrees to deliver to Purchaser within 30 days after execution of this Agreement, and at any other time Purchaser may reasonably request, all physical embodiments of any Information that such Seller may then possess or have under its or his control.

12.3 Noncompetition. As a material inducement for Purchaser to enter into this Agreement and as additional consideration for the consideration to be paid hereunder, each Seller agrees that:

(a) For a period of twenty-four (24) months after the Closing:

(i) such Seller will not, directly or indirectly, engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation, financing, or control of, be employed by, associated with, or in any manner connected with, lend its or his name or any similar name to, lend its or his credit to, or render services or advice to any business that competes with any business conducted by any of the Schaefer Companies in the United States; *provided*, that such Seller may purchase or otherwise acquire up to (but not more than) one percent of any class of securities of any enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934. Each Seller agrees that this covenant is reasonable with respect to its duration, geographical area, and scope;

(ii) such Seller will not, directly or indirectly, either for itself or himself or any other Person, (A) induce or attempt to induce any employee of any of the Schaefer Companies to leave the employ of such Company, (B) in any way interfere with the relationship between any such Company and any employee of such Company, (C) employ, or otherwise engage as an employee, independent contractor, or otherwise, any employee of any such Company, or (D) induce or attempt to induce any customer, supplier, licensee, or business relation of any such Company to cease doing business with such Company, or in any way interfere with the relationship between any customer, supplier, licensee, or business relation of any such Company; and

(iii) such Seller will not, directly or indirectly, either for itself or himself or any other Person, solicit the business of any Person known to such Seller to be a customer of any of the Schaefer Companies, whether or not such Seller had personal contact with such Person, with respect to products or activities which compete with the business of any of the Schaefer Companies.

(b) In the event of a breach by any Seller of any covenant set forth in subsection (a) above, the term of such covenant will be extended by the period of the duration of such breach.

13. MISCELLANEOUS PROVISIONS.

13.1 Governing Law; Jurisdiction. This Agreement shall be governed by and construed under and in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to any conflict of law provisions to the contrary. In furtherance of the foregoing, the internal law of the Commonwealth of Pennsylvania will control the interpretation and construction of this Agreement, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply. Any Proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be

brought against any party hereto in the courts of Cook County, Illinois or the U.S. District Court for the Northern District of Illinois. Each of the parties hereby consent to the exclusive jurisdiction of such courts in any such Proceeding and waives any objection to venue laid therein. Process in any Proceeding referred to in this Section 13.1 may be served on any party anywhere in the world.

13.2 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be considered delivered in all respects when it has been delivered by hand or overnight courier, by acknowledged facsimile transmission followed by the original mailed by certified mail, return receipt requested, or three (3) days after it is mailed by certified mail, return receipt requested, first class postage prepaid, addressed as follows:

If to Purchaser:

Wabtec Corporation
1001 Air Brake Avenue
Wilmerding, PA 15148
Attention: Legal Department
Telephone: 412-825-1000
Facsimile: 412-825-1305

With a copy to:

Reed Smith LLP
435 Sixth Avenue
Pittsburgh, PA 15219
Attention: Lee van Egmond, Esq.
Telephone: (412) 288-3824
Facsimile: (412) 288-3063

If to Sellers:

CCP Limited Partnership, as Sellers' Agent
10936 North Port Washington Road #180
Mequon, WI 53092
Attention: Daniel J. Jagla
Telephone: (414) 272-5506

With a copy to:

Thomas A. Myers, Esq.
Reinhart Boerner Van Deuren s.c.
1000 North Water Street
Suite 2100
Milwaukee, WI 53202
Telephone: (414) 298-8120
Facsimile: (414) 298-8097

or such other addresses as shall be similarly furnished in writing by either party.

13.3. Exhibits. All exhibits, schedules and the Seller' Disclosure Schedules hereto are by reference incorporated herein and made a part of this Agreement.

13.4. Entire Agreement; Binding Effect. This Agreement (including all exhibits, schedules and the Sellers' Disclosure Schedules attached hereto) contains the entire agreement between the Parties hereto with respect to the transactions contemplated herein, and supersedes all prior oral or written statements, representations, warranties, covenants or agreements between the parties with respect to its subject matter (excluding the Confidentiality Agreement) and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement among the parties with respect to its subject matter. Any information that is disclosed in any part of the Sellers' Disclosure Schedule or in any other schedule to this Agreement is deemed disclosed for all Sections of this Agreement. There are no agreements or understandings between the Parties other than those set forth herein or executed simultaneously or in connection herewith. This Agreement shall be

binding upon and inure to the benefit of the Parties hereto and their respective heirs, legal representatives, successors and permitted assigns.

13.5. Headings. The headings in this Agreement are inserted for convenience only and shall not constitute a part of this Agreement.

13.6. Expenses. Except as otherwise specifically provided herein, each of the Parties hereto shall be solely responsible for and pay its own consulting, accounting, legal, and other charges and expenses incurred by such Party in connection with the negotiation, execution and performance of this Agreement, the related agreements and the transactions contemplated hereby and thereby without obligation to pay or contribute to the expenses incurred by any other Party. The reasonable fees and expenses of Reinhart Boerner Van Deuren s.c., Cleary Gull, Inc., Sellers' Agent other professional advisor fees shall be paid by the Company prior to the Closing. All transfer taxes incurred by the Company as a result of the transactions contemplated by this Agreement shall be borne equally by the Seller and the Purchaser.

13.7. Amendment. This Agreement may be amended, modified, superseded or cancelled, and any of the terms, covenants, representations, warranties or conditions hereof may be waived, only by a written instrument executed on behalf of all of the Parties or, in the case of a waiver, by the party waiving compliance.

13.8. Waiver. The failure of any Party at any time or times to require performance of any provision of this Agreement shall in no manner affect the right to enforce that provision or any other provision of hereof at any time thereafter, except as specifically limited herein.

13.9. Time of the Essence. Time is deemed to be of the essence with respect to all of the terms, covenants, representations and warranties of this Agreement.

13.10. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any Party hereto without the prior written consent of the other Parties, and any purported assignment in violation hereof shall be null and void.

13.11. No Third Party Beneficiary. Neither this Agreement nor any provision hereof, nor any exhibit, statement, schedule, Sellers' Disclosure Schedule, certificate, instrument or other document delivered or to be delivered pursuant hereto, nor any agreement entered into or to be entered into pursuant hereto or any provision thereof, is intended to create any right, claim or remedy in favor of, or impose any obligation upon, any Person other than the Parties hereto and their respective successors and permitted assigns.

13.12. Counterparts; Facsimile Signature. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same agreement. Each of the Parties to this Agreement agrees that a signature affixed to a counterpart of this Agreement and delivered by facsimile by any Person is intended to be its, his or her signature and shall be valid, binding and enforceable against such Person.

13.13. Interpretation. Each party having participated in the negotiation and preparation of this Agreement and having been represented by counsel of its choosing, there

shall be no presumption that any ambiguities herein be construed against any particular party. When a reference is made in this Agreement to Sections, exhibits or schedules, such reference shall be to a Section of or exhibit or schedule to this Agreement unless otherwise indicated. The section headings, table of contents and indexes contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.”

13.14 Amendment and Severability. This Agreement may only be amended by a written agreement of the Parties. If any provision, clause or part of this Agreement or the application thereof under certain circumstances, is held invalid, the remainder of this Agreement, or the applications of each provision, clause or part under other circumstances, shall not be affected thereby.

13.15 Further Assurances. Upon reasonable request, from time to time, Sellers and Purchaser shall execute and deliver all documents, make all rightful oaths, testify in any proceedings and do all other acts which may be necessary or desirable in the reasonable judgment of the requesting party to consummate the transactions contemplated by this Agreement.

13.16 Use of Words. The use of words of the masculine gender is intended to include, wherever appropriate, the feminine or neuter gender and vice versa. The use of words of the singular is intended to include, wherever appropriate, the plural and vice versa.

13.17 Accounting Terms. As used in this Agreement or any Ancillary Agreement, accounting terms relating to the Schaefer Companies defined in Section 1, and accounting terms partly defined in Section 1 to the extent not defined, shall have the respective meanings given to them under GAAP.

13.18 Sellers' Agent.

(a) Appointment. Each Seller hereby irrevocably constitutes and appoints CCP as such Seller's agent (the “Sellers' Agent”) for the purpose of performing and consummating the transactions contemplated by this Agreement. The appointment of CCP as Sellers' Agent is coupled with an interest and all authority hereby conferred shall be irrevocable and shall not be terminated by any or all of Sellers without the consent of Purchaser, which consent may be withheld for any reason, and Sellers' Agent is hereby authorized and directed to perform and consummate on behalf of Sellers all of the transactions contemplated by this Agreement.

(b) Authority. Not by way of limiting the authority of Sellers' Agent, each and all of Sellers, for themselves and their respective heirs, executors, administrators, successors and assigns, hereby authorize Sellers' Agent to:

- (i) waive any provision of this Agreement which Sellers' Agent deems necessary or desirable;

- (ii) execute and deliver on Sellers' behalf all documents and instruments which may be executed and delivered pursuant to this Agreement, including without limitation the Shares and the stock powers with respect thereto;
- (iii) receive the Preliminary Closing Balance Sheet and request (or not request) any adjustments thereto;
- (iv) make and receive notices and other communications pursuant to this Agreement and service of process in any Proceeding arising out of or related to this Agreement or any of the transactions contemplated hereunder;
- (v) settle any dispute, claim, action, suit or proceeding arising out of or related to this Agreement or any of the transactions hereunder;
- (vi) as necessary in furtherance of the provisions of Section 2, receive and distribute the Purchase Price;
- (vii) appoint or provide for successor agents; and
- (viii) pay expenses incurred or which may be incurred by or on behalf of Sellers in connection with this Agreement.

In the event of the failure or refusal of CCP to act as Sellers' Agent, Sellers shall promptly appoint one of Sellers as their agent for purposes of this Section 13.18, and failing such appointment within ten (10) days, Purchaser may, by written notice to Sellers at the last address of Sellers applicable for purposes of this Agreement, designate one of Sellers as Sellers' Agent.

(c) Disputes. Any claim, action, suit or other proceeding, whether in law or equity, to enforce any right, benefit or remedy granted to Sellers under this Agreement may be asserted, brought, prosecuted or maintained only by Sellers' Agent. Any claim, action, suit or other proceeding, whether in law or equity, to enforce any right, benefit or remedy granted to Purchaser under this Agreement, including any right of indemnification provided in Section 9, may be asserted, brought, prosecuted or maintained by Purchaser against Sellers or Sellers' Agent by service of process on Sellers' Agent and without the necessity of serving process on, or otherwise joining or naming as a defendant in such claim, action, suit or other proceeding, any Seller. With respect to any matter contemplated by this Section 13.18, Sellers shall be bound by any determination in favor of or against Sellers' Agent or the terms of any settlement or release to which Sellers' Agent shall become a party.

* * * * *

[Signatures on following pages]

IN WITNESS WHEREOF, each of the parties hereto has executed this Stock Purchase Agreement all as of the day and year first above written.

SELLERS:

CCP LIMITED PARTNERSHIP

By: Cedar Creek Partners LLC, its general partner

By: /s/ Daniel J. Jagla

Its: Managing Member

- TRUSTEES OF THE SCHAEFER 401(k) PLAN f/b/o David J. Kostolansky**
- TRUSTEES OF THE SCHAEFER 401(k) PLAN f/b/o David A. Rubino**
- TRUSTEES OF THE SCHAEFER 401(k) PLAN f/b/o Richard J. Barnhart**
- TRUSTEES OF THE SCHAEFER 401(k) PLAN f/b/o Barry L. Anderson**

By: /s/ David J. Kostolansky
David J. Kostolansky, as Trustee and Beneficial Owner

By: /s/ Barry L. Anderson
Barry L. Anderson, as Trustee and Beneficial Owner

By: /s/ David A. Rubino
David A. Rubino, as Trustee and Beneficial Owner

By: /s/ Richard J. Anderson
Richard J. Barnhart, as Beneficial Owner

/s/ Barry L. Anderson
Barry L. Anderson

Darl J. Anderson
Spouse

PURCHASER:

WABTEC HOLDING CORPORATION

By: /s/ Alvaro Garcia-Tunon
Its: Senior Vice President, Chief Financial Officer and Secretary

[Signatures continued on following page]

SELLERS' AGENT:

CCP LIMITED PARTNERSHIP

By: Cedar Creek Partners LLC, its general partner

By: /s/ Daniel J. Jagla

Its: Managing Director

LIST OF SCHEDULES AND EXHIBITS

Schedule "A" – List of Sellers
Sellers' Disclosure Schedules
Purchaser's Disclosure Schedules

Exhibit "A" – Form of Escrow Agreement
Exhibit "B" – Schedule of Funded Debt

