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

# FORM 10-K

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

For the fiscal year ended December 31, 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** | **25-1615902** |
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification No.)** |
| **1001 Air Brake Avenue Wilmerding, Pennsylvania 15148** | **(412) 825-1000** |
| **(Address of principal executive offices, including zip code)** | **(Registrant's telephone number)** |

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Class | Name of Exchange on which registered |
|---|---|
| **Common Stock, par value $.01 per share** | **New York Stock Exchange** |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑.

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

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

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. (Check one):

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 ☑.

The registrant estimates that as of June 30, 2006, the aggregate market value of the voting shares held by non-affiliates of the registrant was approximately $1.7 billion based on the closing price on the New York Stock Exchange for such stock.

As of February 23, 2007, 48,317,852 shares of Common Stock of the registrant were issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Proxy Statement for the registrant's Annual Meeting of Stockholders to be held on May 16, 2007 are incorporated by reference into Part III of this Form 10-K.

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## PART I

### Item 1. BUSINESS

### General

Westinghouse Air Brake Technologies Corporation, doing business as Wabtec Corporation, is a Delaware corporation with headquarters at 1001 Air Brake Avenue in Wilmerding, Pennsylvania. Our telephone number is 412-825-1000, and our website is located at *www.wabtec.com*. All references to “we”, “our”, “us”, the “Company” and “Wabtec” refer to Westinghouse Air Brake Technologies Corporation and its subsidiaries. Westinghouse Air Brake Company (“WABCO”) was formed in 1990 when it acquired certain assets and operations from American Standard, Inc. (ASI). The Company’s operations date back to 1869 when founded by George Westinghouse. In 1999, WABCO merged with MotivePower Industries, Inc. (“MotivePower”) and adopted the name Wabtec.

Today, Wabtec is one of the world’s largest providers of value-added, technology-based equipment and services for the global rail industry. We believe we hold about a 50% market share in North America for our primary braking-related equipment and a leading position in North America for most of our other product lines. Our highly engineered products, which are intended to enhance safety, improve productivity and reduce maintenance costs for customers, can be found on virtually all U.S. locomotives, freight cars and subway cars. In 2006, the Company had sales of approximately $1 billion and net income of approximately $85 million. Sales of aftermarket parts and services represented over 50% of total sales in 2006.

Management and insiders of the Company own approximately 6% of Wabtec’s outstanding shares, with the balance held by investment companies and individuals. Executive management incentive compensation focuses on earnings, cash flow, working capital and economic profit targets to align management interests with those of outside shareholders.

### Industry Overview

The Company primarily serves the worldwide freight and passenger transit rail industries. The worldwide market for rail equipment has been estimated at about $70 billion annually. Our operating results are largely dependent on the level of activity, financial condition and capital spending plans of the global railroad industry. Many factors influence the industry, including general economic conditions; rail traffic, as measured by freight tonnage and passenger ridership; government investment in public transportation; and investment in new technologies by freight and passenger rail systems. Customers outside of North America accounted for about 22% of Wabtec’s sales in 2006.

In North America, railroads carry about 42% of intercity freight, as measured by ton-miles, which is more than any other mode of transportation. They are an integral part of the continent’s economy and transportation system, serving nearly every industrial, wholesale and retail sector. Through direct ownership and operating partnerships, U.S. railroads are part of an integrated network that includes railroads in Canada and Mexico, forming what is regarded as the world’s most-efficient and lowest-cost freight rail service. There are more than 500 railroads operating in North America, with the largest railroads, referred to as “Class I,” accounting for more than 90% of the industry’s revenues. Although the railroads carry a wide variety of commodities and goods, coal is the single-largest item, representing about 40% of carloadings in 2006. Intermodal traffic—the movement of trailers or containers by rail in combination with another mode of transportation—has been the railroads’ fastest-growing market segment in the past 10 years. Railroads operate in a competitive environment, especially with the trucking industry, and are always seeking ways to improve safety, cost and reliability. New technologies offered by Wabtec and others in the industry can provide some of these benefits.

Outside of North America, many of the rail systems have historically been focused on passenger transit, rather than freight. In recent years, however, railroads in countries such as Australia, India and China have been investing capital to expand and improve both their freight and passenger rail systems. Throughout the world, government-owned railroads are being sold to private owners, who often look to improve the efficiency of the rail system by investing in new equipment and new technologies. These investment programs represent additional opportunities for Wabtec to provide products and services.

Demand for our freight related products and services in North America is driven by a number of factors, including:

- *Rail traffic.* The Association of American Railroads (AAR) compiles statistics that gauge the level of activity in the freight rail industry. Two important statistics are revenue ton-miles and carloadings, which are generally referred to as “rail traffic”. According to preliminary AAR estimates for U.S. railroads, 2006 was a record year, with revenue ton-miles increasing 2.5%, carloadings increasing 1.2% and intermodal units increasing 5.0%. As rail traffic increases, we believe that our customers will increase their level of spending on equipment and equipment maintenance.
- *Demand for new locomotives.* Currently, the active locomotive fleet for Class I railroads in North America is about 23,000 units. The average number of new locomotives delivered over the past 10 years was about 1,100 annually. In 2006, about 1,200 new, heavy-haul locomotives were delivered, compared to about 1,100 in 2005.
- *Demand for new freight cars*. Currently, the active freight car fleet in North America is about 1.3 million. The average number of new freight cars delivered over the past 10 years was about 53,000 annually. In 2006, about 75,000 new freight cars were delivered.

In the U.S., passenger transit is a $32 billion industry, dependent largely on funding from federal, state and local governments, and from fare box revenues. With about 40% of the nation’s passenger transit vehicles, New York City is the largest passenger transit market in the U.S., but most major cities offer either rail or bus transit services.

Demand for North American passenger transit products is driven by a number of factors, including:

- *Replacement, building and/or expansion programs of transit authorities.* These programs are funded in part by U.S. federal, state and local government programs. In 2005, the U.S. federal government passed new legislation, known as SAFETEA-LU, which provides federal funding for transportation projects. The legislation authorizes funding of $45 billion from fiscal 2005 to fiscal 2009, with average annual increases of about 8%. The average annual number of new transit car deliveries over the past 10 years was about 600 units. In 2006, 738 transit vehicles were delivered.
- *Ridership levels*. Ridership provides fare box revenues to transit authorities, which use the funds primarily for equipment and system maintenance. Based on preliminary figures from the American Public Transportation Association, ridership on U.S. transit vehicles increased about 3.0% in 2006, the fourth consecutive year that ridership has increased. Given the strength of the U.S. economy and the high price of gasoline, the transit industry expects ridership to continue growing.

**Business Segments and Products**

We provide our products and services through two principal business segments, the Freight Group and the Transit Group. The Freight Group primarily manufactures and services components for new and existing freight cars and locomotives, builds new switcher locomotives and rebuilds freight locomotives. The Transit Group primarily manufactures and services components for new and existing passenger transit vehicles, typically subway cars and buses, builds new commuter locomotives and refurbishes subway cars. Both business segments serve original equipment manufacturers (OEMs) and provide aftermarket sales and services, with the aftermarket accounting for over 50% of net sales. Some business units within the operating groups serve both freight rail and passenger transit rail customers. Beginning in 2006, the Company transferred certain operations between the Freight and Transit Groups to reflect a shift in the markets and customers served by those operations and to reflect the information used by the chief decision maker in evaluating the operations of the Company. All prior-period segment results have been adjusted for this reclassification. In 2006, the Freight Group accounted for 65% of our total net sales, and the Transit Group accounted for the remaining 35%. In 2006, the Freight Group generated 50% of its net sales from the aftermarket and 50% of its net sales from the OEMs. The Transit Group generated 58% of its net sales from the aftermarket and 42% of its net sales from OEMs. A summary of our leading product lines across both of our business segments is outlined below.

- Braking equipment and related components
- Brake assemblies
- Draft gears, couplers and slack adjusters
- Air compressors and dryers
- Railway electronics, including train control systems, event recorders, monitoring equipment, and end of train devices
- Friction products, including brake shoes
- Rail and bus door assemblies
- Heat exchangers and cooling systems
- Commuter and switcher locomotives

We manufacture, sell and service high-quality electronics for railroads in the form of on-board systems and braking for locomotives and freight cars. We harden our products to protect them from severe conditions, including extreme temperatures and high-vibration environments. Recently, we have concentrated our new product development on extending electronic technology to braking equipment and control systems.

We have become a leader in the rail industry by capitalizing on the strength of our existing products, technological capabilities and new product innovation. Our new product development effort has focused on electronic technology for brakes and controls. Over the past several years, we introduced a number of significant new products including electronic brakes and train control equipment that encompasses onboard digital data and global positioning communication protocols. In early 2007, for example, the Federal Railroad Administration (FRA) approved the use of our Electronic Train Management System®, which offers safety benefits to the rail industry. The Transit Group also focuses on new product development and has introduced a number of new products during the past several years. Supported by our technical staff of over 500 engineers and specialists, we have extensive experience in a broad range of product lines, which enables us to provide comprehensive, systems-based solutions for our customers. We currently own over 1,000 active patents worldwide and 500 U.S. patents. During the last three years, we have filed for more than 150 U.S. patents in support of our new and evolving product lines.

For additional information on our business segments, see Note 19 of "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report.

**Competitive Strengths**

Our key strengths include:

- *Leading market positions in core products*. Dating back to 1869 and George Westinghouse's invention of the air brake, we are an established leader in the development and manufacture of pneumatic braking equipment for freight and passenger transit vehicles. We have leveraged our leading position by focusing on research and engineering to expand beyond pneumatic braking components to supplying integrated parts and assemblies for the locomotive through the end of the train. We are a recognized leader in the development and production of electronic recording, measuring and communications systems, highly engineered compressors and heat exchange systems for locomotives and a leading manufacturer of freight car components, including electronic braking equipment, draft gears, brake shoes and electronic end-of-train devices. We are also the leading manufacturer of commuter locomotives and a leading provider of complete door assemblies and couplers for passenger and transit vehicles.

- *Breadth of product offering with a stable mix of OEM and aftermarket business*. We believe that our substantial installed base of products to the OEMs is a significant competitive advantage for providing products and services to the aftermarket because end-users often look to purchase safety and performance-related replacement parts from the original supplier. In addition, we believe our product portfolio is one of the broadest in the rail industry, as we offer a wide selection of quality parts, components and assemblies across the entire train. Over the last several years, approximately 50% of our total net sales have come from our aftermarket products and services business.
- *Leading design and engineering capabilities*. We believe a hallmark of our relationship with our customers has been our leading design and engineering practice, which has, in our opinion, assisted in the improvement and modernization of global railway equipment. We believe both our customers and the federal authorities value our technological capabilities and commitment to innovation, as we seek not only to enhance the efficiency and profitability of our customers, but also to improve the overall safety of the railways through continuous product improvement.
- *Significant barriers to entry*. We believe that there are a number of company and industry specific factors that represent meaningful barriers to entry:
    - *Proprietary product offering*. We have an established record of product improvements and new product development. We have assembled a wide range of patented products, which we believe provides us with a competitive advantage. We currently own over 1,000 active patents worldwide and 500 U.S. patents. During the last three years, we have filed for more than 150 U.S. patents in support of our new and evolving product lines.
    - *Substantial installed base.* We believe our installed base presents a meaningful barrier to entry in both the new product market and the aftermarket. As OEMs and Class I railroad operators attempt to modernize fleets with new products designed to improve and maintain safety and efficiency, these products must be designed to be interoperable with existing equipment. We believe our dedicated research and development staff and comprehensive product offering enables us to leverage our installed base to maintain our leadership position with OEMs and the Class I railroads. Similarly, we believe our substantial installed base makes us a preferred supplier in the aftermarket, as end-users typically prefer to source performance and safety-related replacement parts and service from the original product supplier.
    - *Regulatory nature of the rail industry.* Oversight of the U.S. rail industry is governed by the AAR and by a number of federal regulatory agencies, including the National Transportation Safety Board (NTSB) and the FRA. These groups mandate rigorous manufacturer certification and new product testing and approval processes that we believe are difficult for new entrants to meet cost-effectively and efficiently without the scale and extensive experience we possess.
- *Experienced management team*. Our executive management team has over 100 years of combined experience with the Company. The team implemented numerous initiatives that enabled us to manage the cyclical downturn in the rail supply market in 2001 and 2002. These initiatives include the Wabtec Performance System (WPS), an ongoing program that focuses on “lean manufacturing” principles and continuous improvement across all aspects of our business, including product development. As a result of these initiatives, our management team has improved our cost structure, operating leverage and financial flexibility and placed us in an excellent position to benefit from growth opportunities in an improving market environment.

**Business strategy**

Using the Wabtec Performance System (WPS), we strive to generate sufficient cash to invest in our growth strategies, as outlined below. Through WPS, we believe we can build on what we consider to be a leading position as a low-cost producer in the industry while maintaining world-class product quality, technology and customer responsiveness. Through WPS and employee-directed initiatives such as Kaizen, a Japanese-developed team concept, we continuously strive to improve quality, delivery and productivity, and to reduce costs. These efforts enable us to streamline processes, improve product quality and customer satisfaction, reduce product cycle times and respond more rapidly to market developments. Over time, we expect these lean initiatives to enable us to increase profit margins, which would improve cash flow and strengthen our ability to invest in the following growth strategies:

- *Expand aftermarket sales*. Historically, aftermarket sales are less cyclical than OEM sales because a certain level of aftermarket maintenance and service work must be performed, even during an industry slowdown. Wabtec provides aftermarket parts and services for its components, and the company is seeking to expand this business with new customers such as short-line and regional railroads, or with customers who currently perform the work in-house. In this way, we expect to take advantage of the rail industry trend toward outsourcing, as railroads and transit authorities focus on their core function of transporting goods and people, rather than maintaining and servicing their equipment.
- *Accelerate new product development*. We continue to emphasize research and development funding to create new and improved products. We are focusing on technological advances, especially in the areas of electronics, braking products and other on-board equipment, as a means of new product growth. We seek to provide customers with incremental technological advances that offer immediate benefits with cost-effective investments.
- *Expand globally and into new markets*. We believe that international markets represent a significant opportunity for future growth. In 2006, total international sales increased slightly to $370.1 million, including export sales from the Company’s U.S. operations of $134 million. We intend to increase our existing international sales through strategic acquisitions, direct sales of products through our existing subsidiaries and licensees, and joint ventures with railway suppliers having a strong presence in their local markets. We are specifically targeting markets that operate significant fleets of U.S.-style locomotives and freight cars, including Australia, China, India, Russia, South Africa, and select areas within Europe and South America.
- *Seek acquisitions*. We intend to explore acquisition opportunities using a disciplined, selective approach and certain financial criteria. We will be focused on looking for companies that will help Wabtec to grow profitably, while helping to dampen any impact from potential cycles in the North American rail industry.

**Recent Acquisitions**

In 2006, Wabtec completed two acquisitions in support of its growth strategies. In October, the company acquired Schaefer Equipment, Inc. (Schaefer) a leading manufacturer of forged brake rigging components for freight cars, for approximately $36 million in cash. Schaefer, based in Warren, Ohio, has annual sales of approximately $30 million. Schaefer manufactures a variety of forged components for body-mounted and truck-mounted braking systems. In December, Wabtec acquired Becorit GmbH, (Becorit) a leading manufacturer of friction products for the European transit railway industry, for approximately $51 million in cash. Based in Germany, Becorit has annual sales of approximately $30 million. Becorit manufactures a variety of brake shoes, pads and friction linings for passenger transit cars, freight cars and locomotives, and also makes friction products for industrial markets such as mining and wind power generation.

**Backlog**

In 2006, over 50% of our sales came from aftermarket orders. Aftermarket orders typically carry lead times of less than 30 days, so they are not recorded in backlog for a significant period of time. As such, the Company’s backlog is primarily an indicator of future original equipment sales, not expected aftermarket activity.

The Company's contracts are subject to standard industry cancellation provisions, including cancellations on short notice or upon completion of designated stages. Substantial scope-of-work adjustments are common. For these and other reasons, completion of the Company's backlog may be delayed or cancelled. The railroad industry, in general, has historically been subject to fluctuations due to overall economic conditions and the level of use of alternative modes of transportation.

The backlog of firm customer orders as of December 31, 2006, and December 31, 2005, and the expected year of completion are as follows.

| In thousands | Total Backlog 12/31/06 | Expected Delivery 2007 | Expected Delivery Other Years | Total Backlog 12/31/05 | Expected Delivery 2006 | Expected Delivery Other Years |
|---|---|---|---|---|---|---|
| Freight Group | $ 261,794 | $ 192,818 | $ 68,976 | $ 379,217 | $ 199,924 | $ 179,293 |
| Transit Group | 779,357 | 346,837 | 432,520 | 447,264 | 189,254 | 258,010 |
| Total | $ 1,041,151 | $ 539,655 | $ 501,496 | $ 826,481 | $ 389,178 | $ 437,303 |

**Engineering and Development**

To execute our strategy to develop new products, we invest in a variety of engineering and development activities. For the fiscal years ended December 31, 2006, 2005, and 2004, we invested about $32.7 million, $32.8 million and $33.8 million, respectively, on product development and improvement activities. Approximately 40% of these costs comprise activities solely devoted to new product development in any given year. These engineering and development expenditures, in total, represent about 3.0%, 3.2% and 4.1% of net sales for the same periods, respectively. Sometimes we conduct specific research projects in conjunction with universities, customers and other railroad product suppliers.

Our engineering and development program is largely focused upon train control and new braking technologies, with an emphasis on applying electronics to traditional pneumatic equipment. Electronic braking has been used in the transit industry for years, but freight railroads have been slower to accept the technology due to issues over interoperability, connectivity and durability. We are proceeding with efforts to enhance the major components for existing hard-wired braking equipment and development of new electronic technologies for the freight railroads.

We use our Product Development System (PDS) to develop and monitor new product programs. The system requires the product development team to follow consistent steps throughout the development process, from concept to launch, to ensure the product will meet customer expectations and internal profitability targets.

**Intellectual Property**

We have more than 1,000 active patents worldwide. We also rely on a combination of trade secrets and other intellectual property laws, nondisclosure agreements and other protective measures to establish and protect our proprietary rights in our intellectual property.

Certain trademarks, among them the name WABCO®, were acquired or licensed from American Standard Inc. in 1990 at the time of our acquisition of the North American operations of the Railway Products Group of American Standard. Other trademarks have been developed through the normal course of business, or acquired as a part of our ongoing merger and acquisition program.

We have entered into, as licensor and licensee, a variety of license agreements. We do not believe that any single license agreement is of material importance to our business or either of our business segments as a whole.

We have issued licenses to the two sole suppliers of railway air brakes and related products in Japan, Nabtesco and Mitsubishi Electric Company. The licensees pay annual license fees to us and also assist us by acting as liaisons with key Japanese passenger transit vehicle builders for projects in North America. We believe that our relationships with these licensees have been beneficial to our core transit business and customer relationships in North America.

**Customers**

Our customers include railroads throughout North America, as well as in the United Kingdom, Australia, Europe, South Africa and India; manufacturers of transportation equipment, such as locomotives, freight cars, subway vehicles and buses; lessors of such equipment; and passenger transit authorities, primarily those in North America.

In 2006, about 78% of our sales were to customers in North America, but we also shipped products to 108 countries throughout the world. Over 50% of our sales were in the aftermarket, with the rest of our sales to OEMs of locomotives, freight cars, subway vehicles and buses.

Our top five customers, Electro-Motive Diesel, GE Transportation Systems, Trinity Industries, Union Pacific Railroad, and Bombardier accounted for 26% of our net sales in 2006. No one customer represents 10% or more of consolidated sales. We believe that we have strong relationships with all of our key customers.

**Competition**

We believe that we hold about a 50% market share in North America for our primary braking-related equipment and a leading market position in North America for most of our other product lines. Nonetheless, we operate in a highly competitive marketplace. Price competition is strong because we have a relatively small number of customers and they are very cost-conscious.

In addition to price, competition is based on product performance and technological leadership, quality, reliability of delivery, and customer service and support. Our principal competitors vary to some extent across product lines, but most competitors are smaller, privately held companies. Within North America, New York Air Brake Company, a subsidiary of the German air brake producer Knorr-Bremse AG, is our principal overall OEM competitor. Our competition for locomotive, freight and passenger transit service and repair is primarily from the railroads' and passenger transit authorities' in-house operations, Electro-Motive Diesel, GE Transportation Systems, and New York Air Brake/Knorr. We believe our key strengths, which include leading market positions in core products, breadth of product offering with a stable mix of OEM and aftermarket business, leading design and engineering capabilities, significant barriers to entry and an experienced management team enable us to compete effectively in this marketplace.

**Employees**

At December 31, 2006, we had 5,317 full-time employees, approximately 41% of whom were unionized. A majority of the employees subject to collective bargaining agreements are within North America and these agreements generally extend through 2007, 2008, and 2009.

We consider our relations with our employees and union representatives to be good, but cannot assure that future contract negotiations will be favorable to us.

**Regulation**

In the course of our operations, we are subject to various regulations of agencies and other entities. In the United States, these include principally the FRA and the AAR.

The FRA administers and enforces federal laws and regulations relating to railroad safety. These regulations govern equipment and safety standards for freight cars and other rail equipment used in interstate commerce.

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

As a result of these regulations and those stipulated in other countries in which we derive our revenues, we must maintain certain certifications as a component manufacturer and for products we sell.

**Effects of Seasonality**

Our business is not typically seasonal, although the third quarter results may be impacted by vacation and plant shutdowns at several of our major customers during this period.

**Environmental Matters**

Information on environmental matters is included in Note 18 of "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report.

**Available Information**

We maintain an Internet site at *www.wabtec.com*. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as the annual report to stockholders and other information, are available free of charge on this site. The Internet site and the information contained therein or connected thereto are not incorporated by reference into this Form 10-K. Our Corporate Governance Guidelines, the charters of our Audit, Compensation and Nominating and Corporate Governance Committees, our Code of Conduct, which is applicable to all employees, and our Code of Ethics for Senior Officers, which is applicable to all of our executive officers, are also available free of charge on this site and are available in print to any shareholder who requests them.

## Item 1A. Risk Factors.

***We are dependent upon key customers.***

We rely on several key customers who represent a significant portion of our business. For the fiscal year ended December 31, 2006, our top five customers, Electro-Motive Diesel, GE Transportation Systems, Trinity Industries, Union Pacific Railroad, and Bombardier, accounted for 26% of our net sales. While we believe our relationships with our customers are generally good, our top customers could choose to reduce or terminate their relationships with us. In addition, many of our customers place orders for products on an as needed basis and operate in cyclical industries and, as a result, their order levels have varied from period to period in the past and may vary significantly in the future. Such customer orders are dependent upon their markets and customers, and may be subject to delays and cancellations. As a result of our dependence on our key customers, we could experience a material adverse effect on our business, results of operations and financial condition if we lost any one or more of our key customers or if there is a reduction in their demand for our products.

***Our business operates in a highly competitive industry.***

We operate in a competitive marketplace and face substantial competition from a limited number of established competitors in the United States and abroad, some of which may have greater financial resources than us. Price competition is strong and, coupled with the existence of a number of cost conscious purchasers, has historically limited our ability to increase prices. In addition to price, competition is based on product performance and technological leadership, quality, reliability of delivery and customer service and support. There can be no assurance that competition in one or more of our markets will not adversely affect us and our results of operations.

***We intend to pursue future acquisition strategies that involve a number of inherent risks, any of which may cause us not to realize anticipated benefits.***

One aspect of our business strategy is to selectively pursue acquisitions, joint ventures and other business combinations that we believe will improve our market position and realize operating synergies, operating expense reductions and overhead cost savings. Acquisitions, joint ventures and other business combinations involve inherent risks and uncertainties, any one of which could have a material adverse effect on our business and results of operations, including:

- difficulties in achieving identified financial and operating synergies, including the integration of operations, services and products;
- diversion of management attention from other business concerns;
- the assumption of unknown liabilities; and
- unanticipated changes in the market conditions, business and economic factors affecting such an acquisition.

We cannot assure you that we will be able to consummate any future acquisitions, joint ventures or other business combinations. If we are unable to identify suitable acquisition candidates or to consummate synergistic and strategic acquisitions, we may be unable to fully implement our business strategy and our business and results of operations may be adversely affected as a result. In addition, our ability to engage in strategic acquisitions will be dependent on our ability to raise substantial capital, and we may not be able to raise the funds necessary to implement our acquisition strategy on terms satisfactory to us, if at all.

***As we introduce new products and services, a failure to predict and react to consumer demand could adversely affect our business.***

We have dedicated significant resources to the development, manufacturing and marketing of new products. Decisions to develop and market new transportation products are typically made without firm indications of customer acceptance. Moreover, by their nature, new products may require alteration of existing business methods or threaten to displace existing equipment in which our customers may have a substantial capital investment. There can be no assurance that any new products that we develop will gain widespread acceptance in the marketplace or that such products will be able to compete successfully with other new products or services that may be introduced by competitors.

***Our revenues are subject to cyclical variations in the railway and passenger transit markets and changes in government spending.***

The railway industry historically has been subject to significant fluctuations due to overall economic conditions, the level of use of alternate methods of transportation and the levels of federal, state and local government spending on railroad transit projects. In economic downturns, railroads have deferred, and may defer, certain expenditures in order to conserve cash in the short term. Reductions in freight traffic may reduce demand for our replacement products.

The passenger transit railroad industry is also cyclical. New passenger transit car orders vary from year to year and are influenced greatly by major replacement programs and by the construction or expansion of transit systems by transit authorities. A substantial portion of our net sales has been, and we expect that a material portion of our future net sales may be, derived from contracts with metropolitan transit and commuter rail authorities and Amtrak. To the extent that future funding for proposed public projects is curtailed or withdrawn altogether as a result of changes in political, economic, fiscal or other conditions beyond our control, such projects may be delayed or cancelled, resulting in a potential loss of business for us, including transit aftermarket and new transit car orders. There can be no assurance that economic conditions will be favorable or that there will not be significant fluctuations adversely affecting the industry as a whole and, as a result, us.

***Prolonged unfavorable economic and market conditions could adversely affect our business.***

Unfavorable general economic and market conditions in the United States and internationally (including as a result of terrorist activities and the military response by the United States and other countries) could have a negative impact on our sales and operations. To the extent that these factors result in continued instability of capital markets, shortages of raw materials or component parts, longer sales cycles, deferral or delay of customer orders or an inability to market our products effectively, our business and results of operations could be materially adversely affected.

***A growing portion of our sales may be derived from our international operations, which exposes us to certain risks inherent in doing business on an international level.***

In fiscal year 2006, 22% of our consolidated net sales were derived from sales outside of North America and we intend to continue to expand our international operations in the future. We currently conduct our international operations through a variety of wholly and majority-owned subsidiaries and joint ventures in Australia, Canada, China, France, Germany, India, Italy, Mexico and the United Kingdom. As a result, we are subject to various risks, any one of which could have a material adverse effect on those operations and on our business as a whole, including:

- lack of complete operating control;
- lack of local business experience;
- currency exchange fluctuations and devaluations;
- foreign trade restrictions and exchange controls;
- difficulty enforcing agreements and intellectual property rights;
- the potential for nationalization of enterprises; and
- economic, political and social instability and possible terrorist attacks against American interests.

In addition, certain jurisdictions have laws that limit the ability of non-U.S. subsidiaries and their affiliates to pay dividends and repatriate cash flows.

***We may incur increased costs due to fluctuations in interest rates and foreign currency exchange rates.***

In the ordinary course of business, we are exposed to increases in interest rates that may adversely affect funding costs associated with variable-rate debt and changes in foreign currency exchange rates. We may seek to minimize these risks through the use of interest rate swap contracts and currency hedging agreements. There can be no assurance that any of these measures will be effective. Any material changes in interest or exchange rates could result in material losses to us.

***We may have liability arising from asbestos litigation.***

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

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

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

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

***We are subject to a variety of environmental laws and regulations.***

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

***Our manufacturer's warranties or product liability may expose us to potentially significant claims.***

We warrant the workmanship and materials of many of our products. Accordingly, we are subject to a risk of product liability or warranty claims in the event that the failure of any of our products results in personal injury or death, or does not conform to our customers' specifications. In addition, in recent years, we have introduced a number of new products for which we do not have the same level of historical warranty experience. Although we have not had any material product liability or warranty claims made against us and we currently maintain liability insurance coverage, we cannot assure you that product liability claims, if made, would not exceed our insurance coverage limits or that insurance will continue to be available on commercially acceptable terms, if at all. The possibility exists for these types of warranty claims to result in costly product recalls, significant repair costs and damage to our reputation.

***Labor disputes may have a material adverse effect on our operations and profitability.***

We collectively bargain with labor unions that represent approximately 41% of our employees. Our current collective bargaining agreements generally extend through 2007, 2008, and 2009. Failure to reach an agreement could result in strikes or other labor protests which could disrupt our operations. If we were to experience a strike or work stoppage, it would be difficult for us to find a sufficient number of employees with the necessary skills to replace these employees. We cannot assure you that we will reach any such agreement or that we will not encounter strikes or other types of conflicts with the labor unions of our personnel. Such labor disputes could have an adverse effect on our business, financial condition or results of operations, could cause us to lose revenues and customers and might have permanent effects on our business.

***From time to time we are engaged in contractual disputes with our customers.***

From time to time, we are engaged in contractual disputes with our customers regarding routine delivery and performance issues as well as adjustments for design changes and related extra work. These disputes are generally resolved in the ordinary course of business without having a material adverse impact on us.

***Our indebtedness could adversely affect our financial health.***

At December 31, 2006, we have total debt of $150 million. If it becomes necessary to access our available borrowing capacity under the Refinancing Credit Agreement, along with carrying the $150 million 6 7/8% senior notes, being indebted could have important consequences to us. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- place us at a disadvantage compared to competitors that have less debt; and
- limit our ability to borrow additional funds.

***The indenture for our $150 million 6 7/8% senior notes due 2013 and our Refinancing Credit Agreement contain various covenants that limit our management's discretion in the operation of our businesses.***

The indenture governing the notes and our credit agreement contain various covenants that limit our management's discretion.

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

The indenture under which the senior 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.

***The integration of our recently completed acquisitions may not result in anticipated improvements in market position or the realization of anticipated operating synergies or may take longer to realize than expected.***

In the fourth quarter of 2006 we completed the acquisition of 100% of the stock of Schaefer and Becorit for a combined $87.2 million, net of cash received. Although we believe that the acquisitions will improve our market position and realize positive operating results, including operating synergies, operating expense reductions and overhead cost savings, we cannot be assured that these improvements will be obtained. The management and acquisition of businesses involves substantial risks, any of which may result in a material adverse effect on our business and results of operations, including:

- the uncertainty that an acquired business will achieve anticipated operating results;
- significant expenses to integrate;
- diversion of management attention;
- departure of key personnel from the acquired business;
- effectively managing entrepreneurial spirit and decision-making;
- integration of different information systems;
- unanticipated costs and exposure to unforeseen liabilities; and
- impairment of assets.

## Item 1B. UNRESOLVED STAFF COMMENTS

None.

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**Item 2. PROPERTIES**

**Facilities**

The following table provides certain summary information about the principal facilities owned or leased by the Company. The Company believes that its facilities and equipment are generally in good condition and that, together with scheduled capital improvements, they are adequate for its present and immediately projected needs. Leases on the facilities are long-term and generally include options to renew. The Company's corporate headquarters are located at the Wilmerding, PA site.

| Location | Primary Use | Segment | Own/Lease | Approximate Square Feet |
|---|---|---|---|---|
| **Domestic** | | | | |
| Wilmerding, PA | Manufacturing/Service | Freight | Own | 365,000(1) |
| Lexington, TN | Manufacturing | Freight | Own | 170,000 |
| Jackson, TN | Manufacturing | Freight | Own | 150,000 |
| Chicago, IL | Manufacturing | Freight | Own | 123,140 |
| Warren, OH | Manufacturing | Freight | Own | 102,650 |
| Greensburg, PA | Manufacturing | Freight | Own | 97,800 |
| Germantown, MD | Manufacturing | Freight | Own | 80,000 |
| Kansas City, MO | Service Center | Freight | Lease | 55,900 |
| Columbia, SC | Service Center | Freight | Lease | 40,250 |
| Cedar Rapids, IA | Engineering | Freight | Lease | 37,000 |
| Racine, WI | Engineering/Office | Freight | Lease | 32,500 |
| Carson City, NV | Service Center | Freight | Lease | 22,000 |
| Harvey, IL | Service Center | Freight | Lease | 19,200 |
| Jackson, TN | Service Center | Freight | Lease | 10,000 |
| Boulder, CO | Engineering/Admin | Freight | Lease | 3,400 |
| Omaha, NE | Office | Freight | Lease | 1,470 |
| Jacksonville, FL | Office | Freight | Lease | 250 |
| Boise, ID | Manufacturing | Freight / Transit | Own | 326,000 |
| Laurinburg, NC | Manufacturing | Freight / Transit | Own | 105,000 |
| Willits, CA | Manufacturing | Freight / Transit | Own | 70,000 |
| Spartanburg, SC | Manufacturing/Service | Transit | Lease | 183,600 |
| Buffalo Grove, IL | Manufacturing | Transit | Lease | 115,570 |
| Plattsburgh, NY | Manufacturing | Transit | Lease | 64,000 |
| Elmsford, NY | Service Center | Transit | Lease | 28,000 |
| Sun Valley, CA | Service Center | Transit | Lease | 4,000 |
| Atlanta, GA | Sales Office | Transit | Lease | 1,720 |
| San Pablo, CA | Office | Transit | Lease | 550 |
| Concord, PA | Sales Office | Transit | Lease | 355 |
| Baltimore, MD | Sales Office | Transit | Lease | 350 |
| Glastonbury, CT | Engineering/Admin | Corporate | Lease | 2,600 |
| Mountaintop, PA | Vacant Land Available for Sale | | Own | 225,000 |
| **International** | | | | |
| Stoney Creek (Ontario), Canada | Manufacturing/Service | Freight | Own | 189,200 |
| Wallaceburg (Ontario), Canada | Foundry | Freight | Own | 117,600 |
| San Luis Potosi, Mexico | Manufacturing | Freight | Own | 90,000 |
| Kolkata, India | Manufacturing | Freight | Lease | 36,965 |
| Tottenham, Australia | Manufacturing | Freight | Lease | 26,900 |

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| Location | Primary Use | Segment | Own/Lease | Approximate Square Feet |
|---|---|---|---|---|
| Lachine (Quebec), Canada | Service Center | Freight | Lease | 17,000 |
| Calgary (Alberta), Canada | Service Center | Freight | Lease | 14,400 |
| Sydney, Australia | Office | Freight | Lease | 11,250 |
| Rydalmere, Australia | Office | Freight | Lease | 7,300 |
| Beijing, China | Office | Freight | Lease | 3,545 |
| Shanghai, China | Office | Freight | Lease | 1,245 |
| Doncaster, UK | Manufacturing/Service | Freight / Transit | Own | 330,000 |
| Wetherill Park, Australia | Manufacturing | Freight / Transit | Lease | 70,600 |
| Avellino, Italy | Manufacturing/Office | Transit | Own | 132,495 |
| St. Laurent (Quebec), Canada | Manufacturing | Transit | Own | 106,000 |
| Recklinghausen, Germany | Manufacturing | Transit | Own | 86,390 |
| Schweighouse-sur-Moder, France | Manufacturing | Transit | Lease | 30,000 |
| Sassuolo, Italy | Manufacturing | Transit | Lease | 30,000 |
| Pointe-aux-Trembles (Quebec), Canada | Manufacturing | Transit | Lease | 20,000 |
| Essen, Germany | Office | Transit | Lease | 1,615 |
| Aachen, Germany | Office | Transit | Lease | 1,130 |
| Vierzon, France | Office | Transit | Lease | 1,076 |
| Derby, UK | Office | Transit | Lease | 850 |
| Barcelona, Spain | Office | Transit | Lease | 110 |
| Jiangsu, China | Discontinued Operation | | Own | 80,000 |

(1) Approximately 250,000 square feet are currently used in connection with the Company's corporate and manufacturing operations. The remainder is leased to third parties.

**Item 3. LEGAL PROCEEDINGS**

Information with respect to legal proceedings is included in Note 18 of "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report.

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

None.

## EXECUTIVE OFFICERS OF THE REGISTRANT

The following table provides information on our executive officers. They are elected periodically by our Board of Directors and serve at its discretion.

| Officers | Age | Position |
|---|---|---|
| Albert J. Neupaver | 56 | President and Chief Executive Officer |
| Alvaro Garcia-Tunon | 54 | Senior Vice President, Chief Financial Officer and Secretary |
| Anthony J. Carpani | 54 | Vice President, Group Executive |
| R. Mark Cox | 38 | Vice President, Corporate Development |
| Patrick D. Dugan | 40 | Vice President, Finance and Corporate Controller |
| Keith P. Hildum | 44 | Vice President and Treasurer |
| Timothy J. Logan | 53 | Vice President, Group Executive |
| Barry L. Pennypacker | 46 | Vice President, Group Executive |
| David M. Seitz | 41 | Senior Counsel and Assistant Secretary |
| George A. Socher | 58 | Vice President, Internal Audit |
| Scott E. Wahlstrom | 43 | Vice President, Human Resources |
| Timothy R. Wesley | 45 | Vice President, Investor Relations and Corporate Communications |

*Albert J. Neupaver* was named President and Chief Executive Officer of the Company in February, 2006. Prior to joining the company, Mr. Neupaver served in various positions at AMETEK, Inc., a leading global manufacturer of electronic instruments and electric motors. Most recently he served as President of its Electromechanical Group for nine years.

*Alvaro Garcia-Tunon* has been Senior Vice President, Chief Financial Officer and Secretary of the Company since March 2003. Mr. Garcia-Tunon was Senior Vice President, Finance of the Company from November 1999 until March 2003 and Treasurer of the Company from August 1995 until November 1999.

*Anthony J. Carpani* has been Vice President, Group Executive since June 2000. Previously, Mr. Carpani was Managing Director of our Australian-based subsidiary, F.I.P. Ltd. (formerly known as Futuris Brakes, International) from 1992 until June 2000.

*R. Mark Cox* was named Vice President, Corporate Development in September 2006. Prior to joining Wabtec, Mr. Cox served as Director of Business Development for the Electrical Group of Eaton Corporation since 2002. Prior to joining Eaton, Mr. Cox was an investment banker with UBS Warburg, Prudential and Stephens.

*Patrick D. Dugan* was named Vice President, Finance and Corporate Controller in January 2007. He has served as Controller since November 2003. Prior to joining Wabtec, Mr. Dugan served as Vice President and Chief Financial Officer of CWI International, Inc. from December 1996 to November 2003. Prior to 1996, Mr. Dugan was a Manager with PricewaterhouseCoopers.

*Keith P. Hildum* was named Vice President and Treasurer in October, 2006. He had been serving as Treasurer of the Company since 2001, and prior to that was Vice President, Finance and Administration – Railroad Operations. He has been with Wabtec since 1999, having held various positions with MotivePower Industries. Prior to MotivePower, Mr. Hildum was a Senior Manager with Deloitte & Touche.

*Timothy J. Logan* has been the Vice President, Group Executive since February 2006. He has been with the Company since August 1996, previously holding the position of Vice President, International. Previously, from 1987 until August 1996, Mr. Logan was Vice President, International Operations for Ajax Magnethermic Corporation and from 1983 until 1987 he was President of Ajax Magnethermic Canada, Ltd.

*Barry L. Pennypacker* has been Vice President, Group Executive since February 2004. Previously, from 1999 until 2004, Mr. Pennypacker was Vice President of Quality and Performance Systems. From 1997 to 1999, Mr. Pennypacker was director of manufacturing of Stanley Works. He has been a practitioner of lean manufacturing principles for almost 20 years in both private and public organizations.

*David M. Seitz* was promoted to executive officer in 2006. He has served as Senior Counsel and Assistant Secretary of Wabtec since 2000. Prior to joining Wabtec, Mr. Seitz was General Attorney and Assistant Secretary at Transtar, Inc. Prior to that, he was an electrical engineer with Westinghouse Electric Company.

*George A. Socher* is Vice President – Internal Audit. From November 1999 until December 2006 he was Vice President, Internal Audit and Taxation, of the Company. From July 1995 until November 1999, Mr. Socher was Vice President and Corporate Controller of the Company.

*Scott E. Wahlstrom* has been Vice President, Human Resources, since November 1999. Previously, Mr. Wahlstrom was Vice President, Human Resources & Administration of MotivePower Industries, Inc. from August 1996 until November 1999. From September of 1994 until August of 1996, Mr. Wahlstrom served as Director of Human Resources for MotivePower Industries, Inc.

*Timothy R. Wesley* has been Vice President, Investor Relations and Corporate Communications since November 1999. Previously, Mr. Wesley was Vice President, Investor and Public Relations of MotivePower Industries, Inc. from August 1996 until November 1999. From February 1995 until August 1996, he served as Director, Investor and Public Relations of MotivePower Industries, Inc. From 1993 until February 1995, Mr. Wesley served as Director, Investor and Public Relations of Michael Baker Corporation.

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Common Stock of the Company is listed on the New York Stock Exchange. As of February 23, 2007, there were 48,317,852 shares of Common Stock outstanding held by 1,251 holders of record. The high and low sales price of the shares and dividends declared per share were as follows:

| 2006 | High | Low | Dividends |
|---|---|---|---|
| First Quarter | $34.11 | $26.06 | $ 0.01 |
| Second Quarter | $40.08 | $30.53 | $ 0.01 |
| Third Quarter | $37.50 | $24.75 | $ 0.01 |
| Fourth Quarter | $33.88 | $26.72 | $ 0.01 |

| 2005 | High | Low | Dividends |
|---|---|---|---|
| First Quarter | $21.53 | $16.53 | $ 0.01 |
| Second Quarter | $22.39 | $18.57 | $ 0.01 |
| Third Quarter | $27.65 | $20.76 | $ 0.01 |
| Fourth Quarter | $28.98 | $24.92 | $ 0.01 |

The Company's credit agreement restricts the ability to make dividend payments, with certain exceptions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and see Note 9 of "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report.

At the close of business on February 23, 2007, the Company's Common Stock traded at $33.89 per share.

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference to any future filings under the Securities Act of 1933 and the Securities Exchange Act of 1934, each as amended, except to the extent that Wabtec specifically incorporates it by reference into such filing. The graph below compares the total stockholder return through December 31, 2006, of Wabtec's common stock, the S&P 500, our peer group of manufacturing companies consisting of the following publicly traded companies: The Greenbrier Companies, Inc., L.B. Foster Company, Trinity Industries, Portec Rail Products, Inc. and Freight Car America, Inc. and the peer group including Wabtec.

| | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Wabtec | Return % | | 14.49 | 21.73 | 25.42 | 26.40 | 13.09 |
| | Cum $ | 100.00 | 114.49 | 139.36 | 174.78 | 220.93 | 249.85 |
| S&P 500 Index - Total Return | Return % | | -22.11 | 28.68 | 10.87 | 4.89 | 15.79 |
| | Cum $ | 100.00 | 77.89 | 100.23 | 111.13 | 116.57 | 134.98 |
| Peer Only | Return % | | -25.62 | 70.99 | 25.16 | 21.43 | 18.71 |
| | Cum $ | 100.00 | 74.38 | 127.18 | 159.18 | 193.29 | 229.45 |
| Peer + Wabtec | Return % | | -12.97 | 52.51 | 25.24 | 22.91 | 17.19 |
| | Cum $ | 100.00 | 87.03 | 132.73 | 166.23 | 204.31 | 239.42 |

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. During the fourth quarter 2006, 171,500 shares were repurchased at an average price of $31.13 per share.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Number of Shares Purchased for Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased |
|---|---|---|---|---|
| October 1, 2006 to October 28, 2006 | — | $ — | — | $ 36,469,219 |
| October 29, 2006 to November 25, 2006 | 45,400 | 30.35 | 45,400 | 35,089,932 |
| November 26, 2006 to December 31, 2006 | 126,100 | 31.41 | 126,100 | 31,125,747 |
| Total | 171,500 | $ 31.13 | 171,500 | 31,125,747 |

During the year ended December 31, 2005, there were no repurchases made by us or on our behalf or any "affiliated purchaser" of shares of our common stock registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.

**Item 6. SELECTED FINANCIAL DATA**

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| *In thousands, except per share amounts* | 2006 | 2005 | 2004 | 2003 | 2002 |
| **Income Statement Data** | | | | | |
| Net sales | $1,087,620 | $1,034,024 | $ 822,018 | $ 717,924 | $ 696,195 |
| Gross profit (1) | 296,777 | 259,646 | 205,164 | 189,450 | 179,471 |
| Operating expenses (2) | (167,217) | (158,389) | (149,759) | (139,636) | (132,741) |
| Income from operations | $ 129,560 | $ 101,257 | $ 55,405 | $ 49,814 | $ 46,730 |
| Interest expense, net | $ (1,586) | $ (8,686) | $ (11,528) | $ (11,118) | $ (19,135) |
| Other expense, net | (1,417) | (3,055) | (1,020) | (3,654) | (3,691) |
| Income from continuing operations before cumulative effect of accounting change | 86,494 | 57,685 | 32,096 | 22,252 | 16,310 |
| (Loss) income from discontinued operations (net of tax) (3) | (1,690) | (1,909) | 349 | 451 | (126) |
| Income before cumulative effect of accounting change | 84,804 | 55,776 | 32,445 | 22,703 | 16,184 |
| Net income (loss) (4) | $ 84,804 | $ 55,776 | $ 32,445 | $ 22,703 | $ (45,479) |
| **Diluted Earnings per Common Share** | | | | | |
| Income from continuing operations before cumulative effect of accounting change | $ 1.76 | $ 1.21 | $ 0.70 | $ 0.51 | $ 0.37 |
| Net income (loss) (4) | $ 1.73 | $ 1.17 | $ 0.71 | $ 0.52 | $ (1.04) |
| Cash dividends declared per share | $ 0.04 | $ 0.04 | $ 0.04 | $ 0.04 | $ 0.04 |
| Fully diluted shares outstanding | 49,108 | 47,595 | 45,787 | 43,974 | 43,617 |

| | As of December 31 | | | | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| **Balance Sheet Data** | | | | | |
| Total assets | $ 972,842 | $ 836,357 | $ 713,396 | $ 656,305 | $ 588,865 |
| Cash | 187,979 | 141,365 | 95,257 | 70,328 | 19,210 |
| Total debt | 150,000 | 150,000 | 150,107 | 190,225 | 195,151 |
| Shareholders' equity | 469,889 | 379,207 | 312,426 | 248,293 | 199,262 |

(1) In 2006, includes $6.3 million charge for restructuring and other expenses.

(2) In 2006, includes $541,000 charge for restructuring and other expenses. In 2004, includes $3.2 million charge for a litigation ruling.

(3) In 2006, includes $1.7 million relating to the sale of a non-core product division of Rütgers Rail, S.p.A. In 2005, includes $1.6 million relating to the liquidation of the bus door joint venture in China.

(4) Includes the items noted above, as well as the following: In 2006, a tax benefit of $5.3 million was recognized related to deferred taxes, primarily due to the reversal of previously established valuation allowances on deferred state tax assets. In 2006, 2004, and 2003, tax benefits of $700,000, $4.9 million, and $2.7 million were recognized, respectively, primarily related to resolving certain tax issues from prior years that have been closed from further regulatory examination, and in 2002, a $61.7 million, net of tax, cumulative effect of accounting change for goodwill.

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

### OVERVIEW

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 11 countries. In 2006, about 34% of the Company's revenues came from outside the U.S. and about 22% came from outside of North America.

*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, including global and market expansion, new products and technologies, aftermarket products and services, and acquisitions. 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 increased in 2006. Based on preliminary figures, deliveries of new freight cars increased 9% and orders increased 14%, compared to the same period in 2005. As a result, at December 31, 2006, the backlog of freight cars ordered was 85,826. Sales in our freight segment have benefited from that trend. Following are quarterly freight car statistics for the past three years:

| | Orders | Deliveries | Backlog* |
|---|---|---|---|
| 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 |
| | 70,291 | 46,292 | |
| 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 |
| | 80,703 | 68,657 | |
| 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 |
| Fourth quarter 2006 | 15,819 | 17,927 | 85,826 |
| | 91,466 | 74,943 | |

*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.)*

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):**

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
|---|---|---|---|---|---|
| 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 | 4,244 | 17,380 |

**Intermodal Units Originated (in thousands):**

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
|---|---|---|---|---|---|
| 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 | 3,079 | 12,282 |

*Source: Association of American Railroads—Weekly Rail Traffic*

Deliveries of transit cars were 738 and 918 for the years ended December 31, 2006 and 2005, respectively. Deliveries of locomotives were 1,244 and 1,106 for the years ended December 31, 2006 and 2005, respectively.

In 2007, the Company expects conditions to remain generally favorable in its freight rail and passenger transit rail markets. Demand for new locomotives is expected to be slightly higher than in 2006, while demand for new freight cars is expected to be slightly lower. Rail traffic volumes, which set a record in 2006, started off slightly lower in January 2007, due in part to weather conditions. In the passenger transit rail market, the Company believes that increases in ridership and federal funding will continue to have a positive effect on the demand for new equipment and aftermarket parts. In addition, the Company has a strong backlog of transit-related projects, some of which are expected to generate increased revenues in 2007.

In 2007 and beyond, we will continue to face many challenges, including increased costs for raw materials, higher costs for medical and insurance premiums, and foreign currency fluctuations. In addition, we face general economic risks, as well as the risk that our customers could curtail spending on new and existing equipment. Risks associated with our four-point growth strategy include the level of investment that customers are willing to make in new technologies developed by the industry and the Company, and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and risks.

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, pre-tax, in 2006 for restructuring and other expenses, as a result of the approval of this plan. These expenses were comprised of the following components: $1.2 million for employee severance costs associated with approximately 240 salaried and hourly employees located at our Wallaceburg and Stoney Creek locations; $2.2 million of pension curtailment for those employees; $2.9 million related to asset impairments for structures, machinery, and equipment; and $541,000 for goodwill impairment specific to the Wallaceburg facility. As of December 31, 2006, the employees associated with the restructuring program had been terminated and none of the severance had 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 charges in 2007 primarily for pension-related settlement charges. Pension funding will be subject to regulatory review and approval and funding is anticipated to be made in 2007.

## RESULTS OF OPERATIONS

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

| *In millions* | Year Ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Net sales | $1,087.6 | $1,034.0 | $ 822.0 |
| Cost of sales | (790.8) | (774.4) | (616.9) |
| Gross profit | 296.8 | 259.6 | 205.1 |
| Selling, general and administrative expenses | (130.3) | (121.7) | (112.6) |
| Engineering expenses | (32.7) | (32.7) | (33.8) |
| Amortization expense | (4.2) | (3.9) | (3.3) |
| Total operating expenses | (167.2) | (158.3) | (149.7) |
| Income from operations | 129.6 | 101.3 | 55.4 |
| Interest expense, net | (1.6) | (8.7) | (11.5) |
| Other expense, net | (1.4) | (3.1) | (1.0) |
| Income from continuing operations before income taxes | 126.6 | 89.5 | 42.9 |
| Income tax expense | (40.1) | (31.8) | (10.8) |
| Income from continuing operations | 86.5 | 57.7 | 32.1 |
| Discontinued operations (net of tax) | (1.7) | (1.9) | 0.3 |
| Net income | $ 84.8 | $ 55.8 | $ 32.4 |

### 2006 COMPARED TO 2005

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

| *In thousands* | For the year ended December 31, 2006 | 2005 | Percent Change |
|---|---|---|---|
| Net sales | $1,087,620 | $1,034,024 | 5.2% |
| Income from operations | 129,560 | 101,257 | 28.0% |
| Net income | 84,804 | 55,776 | 52.0% |

Net sales increased by $53.6 million to $1,087.6 million in 2006 from $1,034.0 million in 2005. The increase is primarily related to increased sales from our services, radiator and electronics business units of about $41 million, increased sales from contracts to build locomotives of about $27 million, increased revenues of about $22 million related to higher industry freight car deliveries, incremental sales related to acquisitions consummated in the fourth quarter of about $10 million and increased transit sales of about $6 million as a result of increased spending by transit authorities. These increases were partially offset by volume decreases of about $30 million due to lower industry sales of intermodal cars, and about $21 million for certain U.K. operations primarily related to overhaul contracts. The Company did not realize any significant net sales improvement because of price increases or foreign exchange.

Net income for 2006 was $84.8 million or $1.73 per diluted share. Net income for 2005 was $55.8 million or $1.17 per diluted share. As part of a restructuring plan, Wabtec recognized $6.8 million, pre-tax, in 2006 for restructuring and other charges. Net income improved primarily due to sales increases, improvement in total operating costs as a percentage of sales, lower interest expense of $7.1 million, reduced other expense of $1.7 million, and a reduction of the overall effective income tax rate in 2006 to 31.7% from 35.6% in 2005 as a result of the reversal of previously established valuation allowances related to deferred state tax assets. Offsetting these improvements was an increase of about $5.9 million related to stock based compensation expense.

***Net sales by segment.*** Beginning in 2006, the Company transferred certain operations between the Freight and Transit Groups to reflect a shift in the markets and customers served by those operations. Prior period results have been adjusted for comparability purposes. The following table shows the Company's net sales by business segment:

| *In thousands* | For the year ended December 31, 2006 | 2005 |
|---|---|---|
| Freight Group | $ 709,353 | $ 677,096 |
| Transit Group | 378,267 | 356,928 |
| Net sales | $ 1,087,620 | $ 1,034,024 |

Industry deliveries of new freight cars for 2006 increased to 74,943 units as compared to 68,657 in 2005. Transit Group sales were higher due to increased commuter locomotive revenues.

***Gross profit.*** Gross profit increased to $296.8 million in 2006 compared to $259.6 million in 2005. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. In 2006, gross profit, as a percentage of sales, was 27% compared to 25% in 2005. The restructuring plan charges impacted gross margin, with $6.3 million being recorded in cost of sales. In addition, specific reserves for transit related excess and obsolete inventory of $3.6 million were also recorded in cost of sales in 2006. Gross profit improvement is due to a variety of factors including improved performance of a locomotive module contract which was profitable in 2006 compared to a loss 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 $3.1 million higher in 2006 compared to 2005, which negatively impacted gross profit. Part of the increase is due to $1.8 million of reductions in 2005 of specific reserves related to certain overhaul contracts and transit door components that we established in 2004, which were deemed to be no longer necessary. Also, specific reserves of $1.4 million were established in 2006 for bus door components for our North America operations. Overall, our warranty reserve increased at December 31, 2006 compared to December 31, 2005 by $1.2 million.

The following table shows our operating expenses:

| *In thousands* | For the year ended December 31, 2006 | 2005 | Percent Change |
|---|---|---|---|
| Selling, general and administrative expenses | $130,294 | $121,696 | 7.1% |
| Engineering expenses | 32,701 | 32,762 | (0.2)% |
| Amortization expense | 4,222 | 3,931 | 7.4% |
| Total operating expenses | $167,217 | $158,389 | 5.6% |

***Operating expenses.*** Operating expenses increased $8.8 million in 2006 as compared to 2005. These expenses were 15.4% and 15.3% of sales for 2006 and 2005, respectively. The increase is primarily due to an increase of $5.9 million in 2006 related to stock-based compensation expense as well as incremental costs associated with higher sales volumes. The increase in stock-based compensation expense in 2006 is primarily a result of $2.5 million of expense related to non-vested restricted stock granted in 2006, incremental expense of $1.8 million related to incentive stock awards and $1.3 million of expense incurred for stock options as a result of the adoption of Statement of Financial Accounting Standard (SFAS) No. 123 (revised 2004) "Share-Based Payment" (SFAS 123 (R)). In addition, 2006 operating expenses included $657,000 related to our 2006 acquisitions that occurred in the fourth quarter.

***Income from operations.*** Income from operations totaled $129.6 million (or 11.9% of sales) in 2006 compared with $101.3 million (or 9.8% of sales) in 2005. Higher operating income resulted primarily from higher sales and improved operating performance in 2006.

***Interest expense, net.*** Interest expense decreased 81.7% in 2006 as compared to 2005 primarily due to the Company's lower debt level during 2006 and higher interest income due to improved cash balances.

***Other expense, net.*** The Company recorded a foreign exchange loss of $1.1 million and $3.3 million, respectively, in 2006 and 2005, 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 for the year ended December 31, 2006 was 31.7% compared to 35.6% for the year ended December 31, 2005. The lower effective rate in 2006 was primarily related to the reversal of previously established valuation allowances for deferred state tax assets.

***Net income.*** Net income for 2006 increased $29.0 million, compared with 2005. The increase was due to in large part to higher sales and improved gross profit performance as a result of continuing improvements in our manufacturing process.

**2005 COMPARED TO 2004**

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

| | For the year ended December 31, | | |
|---|---|---|---|
| *In thousands* | 2005 | 2004 | Percent Change |
| Net sales | $1,034,024 | $822,018 | 25.8% |
| Income from operations | 101,257 | 55,405 | 82.8% |
| Net income | 55,776 | 32,445 | 71.9% |

Net sales increased by $212 million from $822 million in 2004 to $1,034 million in 2005, primarily as a result of volume increases of about $85 million related to increasing freight car deliveries and strong demand for locomotive components, the acquisition of the friction product assets of Rutgers Rail S.p.A. ("CoFren") resulting in additional sales of $25 million, and incremental sales of $48 million from the ramp-up of a locomotive module contract in 2005. Aftermarket parts sales also increased by $53 million because of strong carloadings and intermodal units originated. The Company did not realize any significant net sales improvement because of price increases or foreign exchange. Net income for 2005 was $55.8 million or $1.17 per diluted share. Net income for 2004 was $32.4 million or $0.71 per diluted share. This increase in net income was primarily due to increased sales.

***Net sales by segment.*** Beginning in 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. Prior period results have been adjusted for comparability purposes. The following table shows the Company's net sales by business segment:

| | For the year ended December 31, | |
|---|---|---|
| *In thousands* | 2005 | 2004 |
| Freight Group | $ 677,096 | $ 500,789 |
| Transit Group | 356,928 | 321,229 |
| Net sales | $ 1,034,024 | $ 822,018 |

Industry deliveries of new freight cars for 2005 increased to 68,657 units as compared to 46,292 in 2004. Transit Group sales were slightly higher mostly due to increased OEM demand.

***Gross profit.*** Gross profit increased to $259.6 million in 2005 compared to $205.2 million in 2004. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. The increase in gross profit is primarily due to increased sales related to both aftermarket sales increases and volume increases in freight car deliveries with gross profit of $41 million, the CoFren acquisition in the first quarter of 2005, and decreased warranty expense of $7 million. These positive factors were offset by reduced gross profit from the ramp-up of a locomotive modules contract of $2 million and certain discrete restructuring costs of $3.1 million. In 2005, gross profit, as a percentage of sales, was 25% compared to 25% in 2004.

The provision for warranty expense was $7.1 million lower than the prior-year, which positively impacted gross profit. The most significant reason for the reduction is due to non-recurring specific reserves established in 2004 for Canadian transit door contracts and certain electronic products. Overall, our warranty reserve decreased in 2005 by $1.3 million as claims were paid related to the 2004 specific reserves discussed above.

The following table shows our operating expenses:

| | For the year ended December 31, | | |
|---|---|---|---|
| ***In thousands*** | **2005** | **2004** | **Percent Change** |
| Selling, general and administrative expenses | $121,696 | $112,621 | 8.1% |
| Engineering expenses | 32,762 | 33,795 | (3.1)% |
| Amortization expense | 3,931 | 3,343 | 17.6% |
| Total operating expenses | $158,389 | $149,759 | 5.8% |

***Operating expenses.*** Operating expenses increased $8.6 million in 2005 as compared to 2004. Operating expenses are higher in 2005 due to the addition of CoFren, a $1 million reserve for a note receivable that is considered uncollectible and overall higher costs from inflation and sales activity of about $4 million. The year ended December 31, 2004 included a $3.2 million unfavorable litigation ruling in to GETS-GS which was settled in 2006. As a percentage of sales, total operating expense declined to 15.3% in 2005 from 18.2 % in 2004 due to the Company keeping operating expenses relatively consistent in 2005 when sales increased 26%.

***Income from operations.*** Income from operations totaled $101.3 million (or 9.8% of sales) in 2005 compared with $55.4 million (or 6.7% of sales) in 2004. Higher operating income resulted primarily from higher sales in 2005.

***Interest expense, net.*** Interest expense decreased 24.7% in 2005 as compared 2004 primarily due to the Company's lower debt level during 2005 and higher interest income.

***Other expense, net.*** The Company recorded a foreign exchange loss of $3.3 million and $1.2 million, respectively, in 2005 and 2004, 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 35.6% for 2005. In 2004, Wabtec recorded a $4.9 million tax benefit after resolving certain tax issues from prior years. Without this benefit, the overall effective income tax rate was 36.5% for 2004. The 2005 rate was lower due to increased income in lower tax jurisdictions.

***Net income.*** Net income for 2005 increased $23.3 million, compared with 2004. The increase was due to higher sales.

**Liquidity and Capital Resources**

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

| *In thousands* | For the year ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Cash provided by (used for): | | | |
| Operating activities | $ 151,027 | $ 84,321 | $ 53,480 |
| Investing activities | (104,762) | (57,607) | (17,808) |
| Financing activities: | | | |
| Debt paydown | — | (129) | (40,115) |
| Stock repurchase | (18,874) | — | — |
| Other | 17,067 | 27,904 | 20,963 |

***Operating activities.*** Operating cash flow in 2006 was $151.0 million as compared to $84.3 million in 2005. This $66.7 million increase was the result of increased earnings as well as certain changes in operating assets and liabilities. Net income for the Company increased $29.0 million as a result of higher sales volumes and gross profit. Accounts receivable increased cash flows in 2006 by $99.2 million primarily as a result of the collection of large milestone payments related to long-term locomotive contracts in 2006. Negatively impacting operating cash flows in 2006 is the use of cash of $46.1 million from accrued liabilities and customer deposits, the majority of which relate to the long-term locomotive contracts discussed above. Also, negatively impacting operating cash flows by $9.3 million is the result of increased inventory as compared to 2005.

Operating cash flow in 2005 was $84.3 million as compared to $53.5 million in 2004. This $30.8 million increase was the result of increased earnings as well as certain changes in operating assets and liabilities. Net income for the Company increased $23.4 million primarily as a result of the higher sales volume for 2005. Accrued income taxes increased operating cash flows by $16 million in 2005 due to the timing of tax payments in 2004. In particular, tax liabilities recognized in 2003, were liquidated in 2004. Accrued liabilities and customer deposits generated operating cash flows of $36.6 million more than the prior year. In particular, customer deposits from certain locomotive contracts accounted for the majority of this increase. Net other assets and liabilities generated approximately $13.9 million in cash related to increasing liability balances related to pensions, post retirement healthcare, and long term incentive plan liabilities. Negatively impacting operating cash flows were accounts receivable which used operating cash of $38.8 million and accounts payable decreased using cash of approximately $20.8 million. Accounts receivable had increased as a result of the correspondingly higher sales for 2005. Accounts payable decreased as the Company reduced trade payables.

***Investing activities.*** In 2006 and 2005, cash used in investing activities was $104.8 million and $57.6 million, respectively. In 2006, we acquired 100% of the stock of Schaefer Equipment and Becorit for $36.3 million and $50.9 million, respectively, net of cash received. The remaining use of cash consisted almost entirely of capital expenditures, net of disposals. In 2005, we acquired the assets of Rutgers Rail S.p.A. for $35.9 million, net of cash received. The remaining use of cash consisted almost entirely of capital expenditures, net of disposals.

Capital expenditures for continuing operations were $20.9 million, $22.7 million and $19.3 million in 2006, 2005 and 2004, respectively. The majority of capital expenditures for these periods relates to upgrades to and replacement of existing equipment.

***Financing activities.*** In 2006, cash used by financing activities was $1.8 million compared to cash provided by financing activities of $27.8 million in 2005. The decrease relates to reduced proceeds received related to stock option exercises in 2006 as a result of an overall decrease in options exercised in 2006 as compared to

2005. Also, on July 31, 2006 the Company's Board of Directors authorized a repurchase of up to $50 million of the Company's outstanding shares. Through December 31, 2006 the Company had repurchased 673,900 shares for an aggregate cost of $18.9 million.

The Company realized proceeds of $14.6 million and $29.8 million from the exercise of stock options during 2006 and 2005, respectively. During 2004, long term debt was reduced by $40.1 million. The Company also realized proceeds of $22.8 million from the exercise of stock options during 2004.

The Notes are senior unsecured obligations of the Company and rank pari passu with all existing and future senior debt and senior to all our existing and future subordinated indebtedness of the Company. The indenture under which the Notes were issued contains covenants and restrictions which limit among other things, the following: the incurrence of indebtedness, payment of dividends and certain distributions, sale of assets, change in control, mergers and consolidations and the incurrence of liens. The Company is in compliance with these measurements and covenants and expects that these measurements will not be any type of limiting factor in executing our operating activities.

The following table shows outstanding indebtedness at December 31, 2006 and 2005. The revolving credit agreement and other term loan interest rates are variable and dependent on market conditions.

| | December 31, | |
|---|---|---|
| *In thousands* | 2006 | 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 December 31, 2006 and 2005 was $188.0 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 December 31, 2006, the Company had available bank borrowing capacity, net of $23.9 million of letters of credit, of approximately $151.1million, 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 year ended December 31, 2006.

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

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

The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and "change of control" of the Company. The Refinancing Credit Agreement includes the following covenants: a minimum interest coverage ratio of 3, maximum debt to cash flow ratio of 3.25 and a minimum net worth of $180 million plus 50% of consolidated net income since September 30, 2003. The Company is in compliance with these measurements and covenants and expects that these measurements will not be any type of limiting factor in executing our operating activities. See Note 9 of "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report.

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

The Company entered into an amendment to its Refinancing Credit Agreement in February 2007. Prior to the amendment, the Refinancing Credit Agreement prohibited the Company from making acquisitions past a certain dollar limit without the prior approval of the bank consortium. The Refinancing Credit Agreement now permits the Company to complete acquisitions as long as certain financial parameters and ratios are met.

**Effects of Inflation**

In general, inflation has not had a material impact on the Company's results of operations. Some of our labor contracts contain negotiated salary and benefit increases and others contain cost of living adjustment clauses, which would cause our labor cost to automatically increase if inflation were to become significant. However, higher costs of metals have reduced gross margin. Other areas of higher costs include medical benefits for active and retired employees.

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

The Company is obligated to make future payments under various contracts such as debt agreements, lease agreements and have certain contingent commitments such as debt guarantees. The Company has grouped these contractual obligations and off-balance sheet arrangements into operating activities, financing activities, and investing activities in the same manner as they are classified in the Statement of Consolidated Cash Flows to provide a better understanding of the nature of the obligations and arrangements and to provide a basis for comparison to historical information. The table below provides a summary of contractual obligations and off-balance sheet arrangements as of December 31, 2006:

| *In thousands* | Total | Less than 1 year | 1 – 3 years | 3 – 5 years | More than 5 years |
|---|---|---|---|---|---|
| Operating activities: | | | | | |
| Purchase obligations (1) | $ 28,156 | $17,738 | $10,418 | $ — | $ — |
| Operating leases (2) | 30,108 | 6,719 | 10,069 | 6,420 | 6,900 |
| Pension benefit payments (3) | — | 8,145 | 15,889 | 16,802 | — |
| Postretirement benefit payments (4) | — | 2,947 | 5,960 | 5,882 | — |
| Financing activities: | | | | | |
| Interest payments (5) | 72,191 | 10,313 | 20,625 | 20,625 | 20,628 |
| Long-term debt (6) | 150,000 | — | — | — | 150,000 |
| Dividends to shareholders (7) | — | — | — | — | — |
| Investing activities: | | | | | |
| Capital projects (8) | 23,000 | 23,000 | — | — | — |
| Other: | | | | | |
| Standby letters of credit (9) | 23,899 | 14,091 | 8,620 | 1,188 | — |
| Total | | $82,953 | $71,581 | $50,917 | |

(1) Purchase obligations for the purposes of this disclosure have been defined as a contractual obligation that is in excess of $100,000 annually, and $200,000 in total.

(2) Future minimum payments for operating leases are disclosed by year in Note 15 of the “Notes to Consolidated Financial Statements” included in Part IV, Item 15 of this report.

(3) Annual payments to participants are expected to continue into the foreseeable future at the amounts or ranges noted. Pension benefit payments are based on actuarial estimates using current assumptions for discount rates, expected return on long-term assets and rate of compensation increases. The Company expects to contribute about $13.7 million to pension plan investments in 2007. See further disclosure in Note 10 of the “Notes to Consolidated Financial Statements” included in Part IV, Item 15 of this report.

(4) Annual payments to participants are expected to continue into the foreseeable future at the amounts or ranges noted. Postretirement payments are based on actuarial estimates using current assumptions for discount rates and health care costs. See further disclosure in Note 10 of the “Notes to Consolidated Financial Statements” included in Part IV, Item 15 of this report.

(5) Interest payments are payable January and July of each year at 6 7/8% of $150 million Senior Notes due in 2013.

(6) Scheduled principal repayments of outstanding loan balances are disclosed in Note 9 of the “Notes to Consolidated Financial Statements” included in Part IV, Item 15 of this report.

(7) Shareholder dividends are subject to approval by the Company’s Board of Directors, currently at an annual rate of approximately $1.9 million.

(8) The annual capital expenditure budget is subject to approval by the Board of Directors. The 2007 budget amount was approved at the December 2006 Board of Directors meeting.

(9) The Company has $23.9 million in outstanding letters of credit for performance and bid bond purposes, which expire in various dates through 2010.

*Obligations for operating activities.* The Company has entered into $28.2 million of material long-term non-cancelable materials and supply purchase obligations. Operating leases represent multi-year obligations for rental of facilities and equipment. Estimated pension funding and post retirement benefit payments are based on actuarial estimates using current assumptions for discount rates, expected return on long-term assets, rate of compensation increases and health care cost trend rates. Benefits paid for pension obligations were $7.8 million and $7.5 million in 2006 and 2005, respectively. Benefits paid for post retirement plans were $2.2 million and $2.7 million in 2006 and 2005, respectively.

*Obligations for financing activities.* Cash requirements for financing activities consist primarily of long-term debt repayments, interest payments and dividend payments to shareholders. The Company has historically paid quarterly dividends to shareholders, subject to quarterly approval by our Board of Directors, currently at a rate of approximately $1.9 million annually.

The Company arranges for performance bonds to be issued by third party insurance companies to support certain long term customer contracts. At December 31, 2006, initial value of performance bonds issued on the Company's behalf is about $103.3 million.

*Obligations for investing activities.* The Company typically spends approximately $15 million to $25 million a year for capital expenditures, primarily related to facility expansion efficiency and modernization, health and safety, and environmental control. The Company expects annual capital expenditures in the future will be within this range.

**Forward Looking Statements**

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

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

**Economic and industry conditions**

- materially adverse changes in economic or industry conditions generally or in the markets served by us, including North America, South America, Europe, Australia and Asia;
- demand for freight cars, locomotives, passenger transit cars, buses and related products and services;
- reliance on major original equipment manufacturer customers;
- original equipment manufacturers' program delays;
- demand for services in the freight and passenger rail industry;
- demand for our products and services;
- orders either being delayed, 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-K 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 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 Notes 2 and 18, respectively, in the "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report.

A summary of the Company's significant accounting policies is included in Note 2 in the "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of 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.

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| **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. |

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| **Goodwill and Indefinite-Lived Intangibles:**<br>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.<br><br>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:**<br>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:**<br>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.<br><br>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. |

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| **Income Taxes:**<br>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. | The estimate of our tax obligations are uncertain because management must use judgment to estimate the exposures associated with our various filing positions, as well as realization of our deferred tax assets. | 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.<br><br>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.<br><br>A deferred tax valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. |
| **Revenue Recognition:**<br>Revenue is recognized in accordance with Staff Accounting Bulletins (SABs) 101, "Revenue Recognition in Financial Statements" and 104 "Revision of Topic 13."<br><br>The Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as such amounts are determined.<br><br>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. | Revenue is recognized when products have been shipped to the respective customers, title has passed and the price for the product has been determined.<br><br>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.<br><br>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. | 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.<br><br>Provisions are made currently for estimated losses on uncompleted contracts.<br><br>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. |

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

**Interest Rate Risk**

In the ordinary course of business, we are exposed to risks that increases in interest rates may adversely affect funding costs associated with variable-rate debt. There was no outstanding variable rate debt at December 31, 2006 and 2005. Management had entered into pay-fixed, receive-variable interest rate swap contracts that mitigated the impact of variable-rate debt interest rate increases. These interest rate swap contracts were terminated in 2004. In 2003, we had concluded that our swap contracts qualified for "special cash flow hedge accounting" which permitted recording the fair value of the swap and corresponding adjustment to other comprehensive income on the balance sheet.

**Foreign Currency Exchange Risk**

We occasionally enter into several types of financial instruments for the purpose of managing our exposure to foreign currency exchange rate fluctuations in countries in which we have significant operations. As of December 31, 2006, we had several such instruments outstanding to hedge currency rate fluctuation in 2007.

We 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 are for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). As of December 31, 2006, we had forward contracts with a notional value of $48 million CAD (or $42.7 million U.S.), with an average exchange rate of $0.89 USD per $1 CAD, resulting in the recording of a current liability of $1.3 million and a corresponding offset in accumulated other comprehensive loss of $825,000, net of tax.

We are also subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. dollar. For the year ended December 31, 2006, approximately 66% of Wabtec's net sales are in the United States, 10% in Canada, 2% in Mexico, 4% in Australia, 1% in Germany, 9% in the United Kingdom, and 8% in other international locations. (See Note 19 of "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report).

Our market risk exposure is not substantially different from our exposure at December 31, 2005.

**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 cumulative effects, if any, of applying this Interpretation will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of this statement on its financial statements.

In September 2006, the 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 benefit 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 Company has adopted the provisions of SFAS 158 as of December 31, 2006. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented have not been restated. The adoption in 2006 had no effect on the computation of net periodic benefit expense for pensions and postretirement benefits. See Note 10 of "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report for the impact of the adoption on the Company's Consolidated Balance Sheet at December 31, 2006.

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.

Effective January 1, 2006, Wabtec adopted SFAS 123 (R), 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. As a result of the adoption, stock-based compensation expense for 2006 includes $1.3 million of expense related to stock options that previously was not recognized under APB 25.

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data are set forth in Item 15, of Part IV hereof.

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

There have been no disagreements with our independent public accountants.

## Item 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure 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 December 31, 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 finance officer, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

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 December 31, 2006, that has materially affected, or is reasonably likely to materially affect, Wabtec's internal control over financial reporting. Management's annual report on internal control over financial reporting and the attestation report of the registered public accounting firm are included in Part IV, Item 15 of this report.

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**Management's Report on Internal Control over Financial Reporting**

Management's Report on Internal Control Over Financial Reporting appears on page 44 and is incorporated herein by reference.

**Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting**

Ernst & Young's attestation report on Management's Report on Internal Control Over Financial Reporting appears on page 46 and is incorporated herein by reference.

## Item 9B. OTHER INFORMATION

None.

# PART III

## Items 10 through 14.

In accordance with the provisions of General Instruction G(3) to Form 10-K, the information required by Item 10 (Directors, Executive Officers and Corporate Governance), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), Item 13 (Certain Relationships and Related Transactions, and Director Independence) and Item 14 (Principal Accountant Fees and Services) is incorporated herein by reference from the Company's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 16, 2007, except for the Equity Compensation Plan Information required by Item 12, which is set forth in the table below. The definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2006. Information relating to the executive officers of the Company is set forth in Part I.

Wabtec has adopted a Code of Ethics for Senior Officers which is applicable to all of our executive officers. As described in Item 1 of this report the Code of Ethics for Senior Officers is posted on our website at *www.wabtec.com*. In the event that we make any amendments to or waivers from this code, we will disclose the amendment or waiver and the reasons for such on our website.

This table provides aggregate information as of December 31, 2006 concerning equity awards under Wabtec's compensation plans and arrangements.

| Plan Category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by shareholders | 4,077,666 | $ 13.52 | 2,702,012 |
| Equity compensation plans not approved by shareholders | — | — | — |
| Total | 4,077,666 | $ 13.52 | 2,702,012 |

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## PART IV

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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



| (b) | **Exhibits** | Filing Method |
|---|---|---|
| 2.1 | Amended and Restated Agreement and Plan of Merger, as amended (originally included as Annex A to the Joint Proxy Statement/Prospectus) | 5 |
| 3.1 | Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995 | 2 |
| 3.2 | Amended and Restated By-Laws of the Company, effective January 5, 2006 | 12 |
| 4.1(a) | Indenture with the Bank of New York as Trustee dated as of August 6, 2003 | 9 |
| 4.1(b) | Resolutions Adopted July 23, 2003 by the Board of Directors establishing the terms of the offering of up to $150,000,000 aggregate principal amount of 6.875% Notes due 2013 | 9 |
| 4.2 | Purchase Agreement, dated July 23, 2003, by and between the Company and the initial purchasers | 9 |
| 4.3 | Exchange and Registration Rights Agreement, dated August 6, 2003 | 9 |
| 10.1 | MotivePower Stock Option Agreement (originally included as Annex B to the Joint Proxy Statement/Prospectus) | 5 |
| 10.2 | Westinghouse Air Brake Stock Option Agreement (originally included as Annex C to the Joint Proxy Statement/Prospectus) | 5 |

| | | Filing Method |
|---|---|---|
| 10.3 | Voting Agreement dated as of September 26, 1999 among William E. Kassling, Robert J. Brooks, Harvard Private Capital Holdings, Inc., Vestar Equity Partners, L.P. and MotivePower Industries, Inc. (originally included as Annex D to the Joint Proxy Statement/Prospectus) | 5 |
| 10.4 | Indemnification Agreement dated January 31, 1995 between the Company and the Voting Trust Trustees | 2 |
| 10.5 | Agreement of Sale and Purchase of the North American Operations of the Railway Products Group, an operating division of American Standard Inc., dated as of 1990 between Rail Acquisition Corp. and American Standard Inc. (only provisions on indemnification are reproduced) | 2 |
| 10.6 | Letter Agreement (undated) between the Company and American Standard Inc. on environmental costs and sharing | 2 |
| 10.7 | Purchase Agreement dated as of June 17, 1992 among the Company, Schuller International, Inc., Manville Corporation and European Overseas Corporation (only provisions on indemnification are reproduced) | 2 |
| 10.8 | Asset Purchase Agreement dated as of January 23, 1995 among the Company, Pulse Acquisition Corporation, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc. and the Pulse Shareholders (Schedules and Exhibits omitted) | 2 |
| 10.9 | License Agreement dated as of December 31, 1993 between SAB WABCO Holdings B.V. and the Company | 2 |
| 10.10 | Letter Agreement dated as of January 19, 1995 between the Company and Vestar Capital Partners, Inc. | 2 |
| 10.11 | Westinghouse Air Brake Company 1995 Stock Incentive Plan, as amended | 4 |
| 10.12 | Westinghouse Air Brake Company 1995 Non-Employee Directors' Fee and Stock Option Plan, as amended | 14 |
| 10.13 | Letter Agreement dated as of January 1, 1995 between the Company and Vestar Capital Partners, Inc. | 2 |
| 10.14 | Form of Indemnification Agreement between the Company and Authorized Representatives | 2 |
| 10.15 | Common Stock Registration Rights Agreement dated as of March 5, 1997 among the Company, Harvard, AIP and the Voting Trust | 3 |
| 10.16 | 1998 Employee Stock Purchase Plan | 4 |
| 10.17 | Westinghouse Air Brake Technologies Corporation 2000 Stock Incentive Plan, as amended. | 14 |
| 10.18 | Asset Purchase Agreement, by and between General Electric Company, through its GE Transportation Systems business and Westinghouse Air Brake Technologies Corporation, dated as of July 24, 2001 | 8 |
| 10.19 | Refinancing Credit Agreement by and among the Company, the Guarantors, various lenders, LaSalle Bank National Association, JP Morgan Chase Bank, The Bank of New York, Citizens Bank of Pennsylvania, National City Bank of Pennsylvania, The Bank of Nova Scotia, Bank of Tokyo-Mitsubishi Trust Company and PNC Bank, National Association dated January 12, 2004 | 10 |

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| | | Filing Method |
|---|---|---|
| 10.20 | Sale and Purchase Agreement, by and between Rütgers Rail S.p.A. and the Company, dated August 12, 2004. | 11 |
| 10.21 | Amendment Agreement dated January 28, 2005 by and among Rütgers Rail S.p.A., the Company, CoFren S.r.l. and RFPC Holding Company to the Sale and Purchase Agreement dated August 12, 2004. | 11 |
| 10.22 | Employment Agreement with Albert J. Neupaver, dated February 1, 2006. | 13 |
| 10.23 | Restricted Stock Agreement with Albert J. Neupaver, dated February 1, 2006. | 13 |
| 10.24 | Stock Purchase Agreement, by and among Wabtec Holding Company, certain shareholders of Schaefer Manufacturing, Inc. and CCP Limited Partnership, dated October 6, 2006. | 15 |
| 10.25 | Share Purchase Agreement, by and between BBA Holding Deutschland GmbH and Westinghouse Air Brake Technologies Corporation, dated November 27, 2006 (Exhibits and Schedules omitted, but will be provided to the Commission upon request). | 1 |
| 21 | List of subsidiaries of the Company | 1 |
| 23.1 | Consent of Ernst & Young LLP | 1 |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certifications | 1 |
| 32.1 | Section 1350 Certifications | 1 |
| 99.1 | Annual Report on Form 11-K for the year ended December 31, 2005 of the Westinghouse Air Brake Technologies Corporation Savings Plan | 1 |

1 Filed herewith.

2 Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866).

3 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1997.

4 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1998.

5 Filed as part of the Company's Registration Statement on Form S-4 (No. 333-88903).

6 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1999.

7 Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2000.

8 Filed as an exhibit to the Company's Current Report on Form 8-K, dated November 13, 2001.

9 Filed as an exhibit to the Company's Registration Statement on Form S-4 (No. 333-110600).

10 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 2003.

11 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 2004.

12 Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated January 5, 2006.

13 Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2006.

14 Filed as an Annex to the Company's Schedule 14A Proxy Statement filed on April 13, 2006.

15 Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006.

## MANAGEMENT'S REPORTS TO WABTEC SHAREHOLDERS

### Management's Report on Financial Statements and Practices

The accompanying consolidated financial statements of Westinghouse Air Brake Technologies Corporation and subsidiaries (the "Company") were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in the 10-K is consistent with that in the financial statements.

Management also recognizes its responsibility for conducting the Company's affairs according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in key policy statements issued from time to time regarding, among other things, conduct of its business activities within the laws of host countries in which the Company operates and potentially conflicting outside business interests of its employees. The Company maintains a systematic program to assess compliance with these policies.

### Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting standards. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has excluded Schaefer Equipment, Inc. (Schaefer) and Becorit GmbH (Becorit) from its assessment of internal controls over financial reporting as of December 31, 2006 because Schaefer and Becorit were acquired by the Company in purchase business combinations effective October 6 and December 1, 2006, respectively. Schaefer and Becorit are wholly owned subsidiaries whose total assets and net sales represent 11.8% and 0.9%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria in Internal Control-Integrated Framework issued by the COSO. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

### Management's Certifications

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required by the Sarbanes-Oxley Act have been included in Exhibits 31 and 32 in the Company's 10-K. In addition, in 2006, the Company's Chief Executive Officer provided to the New York Stock Exchange the annual CEO certification regarding the Company's compliance with the New York Stock Exchange's corporate governance listing standards.

By /S/ ALBERT J. NEUPAVER

**Albert J. Neupaver,**
**President, Chief Executive Officer and Director**

By /S/ ALVARO GARCIA-TUNON

**Alvaro Garcia-Tunon,**
**Senior Vice President,**
**Chief Financial Officer and Secretary**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Westinghouse Air Brake Technologies Corporation:

We have audited the accompanying consolidated balance sheets of Westinghouse Air Brake Technologies Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Westinghouse Air Brake Technologies Corporation and subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As explained in Note 10 to the consolidated financial statements, at December 31, 2006, the Company adopted Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88,106 and 132(R)”. As explained in Note 13 to the consolidated financial statements, for the year ended December 31, 2006 the Company adopted Statement of Financial Accounting Standards No. 123 (R), “Share-Based Payment”.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Westinghouse Air Brake Technologies Corporation’s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Pittsburgh, Pennsylvania
February 23, 2007

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Shareholders of Westinghouse Air Brake Technologies Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Westinghouse Air Brake Technologies Corporation maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Westinghouse Air Brake Technologies Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Schaefer Equipment, Inc. and Becorit GmbH, which are included in the 2006 consolidated financial statements of Westinghouse Air Brake Technologies Corporation and constituted 11.8% of total assets as of December 31, 2006 and 0.9% of net sales for the year then ended. Our audit of internal control over financial reporting of Westinghouse Air Brake Technologies Corporation also did not include an evaluation of the internal control over financial reporting of Schaefer Equipment, Inc. and Becorit GmbH.

In our opinion, management's assessment that Westinghouse Air Brake Technologies Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Westinghouse Air Brake Technologies Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Westinghouse Air Brake Technologies Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006 and our report dated February 23, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Pittsburgh, Pennsylvania
February 23, 2007

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## WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

## CONSOLIDATED BALANCE SHEETS

| *In thousands, except share and par value* | December 31, 2006 | December 31, 2005 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 187,979 | $ 141,365 |
| Accounts receivable | 177,345 | 206,891 |
| Inventories | 145,481 | 110,873 |
| Deferred income taxes | 24,773 | 15,838 |
| Other | 11,613 | 7,959 |
| Total current assets | 547,191 | 482,926 |
| Property, plant and equipment | 390,178 | 358,759 |
| Accumulated depreciation | (211,869) | (197,158) |
| Property, plant and equipment, net | 178,309 | 161,601 |
| **Other Assets** | | |
| Goodwill | 173,251 | 118,181 |
| Other intangibles, net | 44,494 | 39,129 |
| Deferred income taxes | 16,588 | 18,428 |
| Other noncurrent assets | 13,009 | 16,092 |
| Total other assets | 247,342 | 191,830 |
| Total Assets | $ 972,842 | $ 836,357 |
| **Liabilities and Shareholders' Equity** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 92,624 | $ 93,551 |
| Accrued income taxes | 4,491 | 4,427 |
| Customer deposits | 75,537 | 71,098 |
| Accrued compensation | 26,297 | 25,274 |
| Accrued warranty | 10,305 | 8,591 |
| Commitments and contingencies | 602 | 1,481 |
| Other accrued liabilities | 33,935 | 32,149 |
| Total current liabilities | 243,791 | 236,571 |
| Long-term debt | 150,000 | 150,000 |
| Reserve for postretirement and pension benefits | 74,511 | 41,769 |
| Deferred income taxes | 15,014 | 7,381 |
| Commitments and contingencies | 1,775 | 2,628 |
| Accrued warranty | 7,094 | 7,567 |
| Other long-term liabilities | 10,768 | 11,234 |
| Total liabilities | 502,953 | 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 48,250,776 and 48,002,819 outstanding at December 31, 2006 and 2005, respectively | 662 | 662 |
| Additional paid-in capital | 314,752 | 294,209 |
| Treasury stock, at cost, 17,923,991 and 18,171,948 shares, at December 31, 2006 and 2005, respectively | (232,823) | (225,483) |
| Retained earnings | 419,603 | 336,744 |
| Accumulated other comprehensive loss | (32,305) | (26,925) |
| Total shareholders' equity | 469,889 | 379,207 |
| Total Liabilities and Shareholders' Equity | $ 972,842 | $ 836,357 |

*The accompanying notes are an integral part of these statements.*

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| *In thousands, except per share data* | Year ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Net sales | $1,087,620 | $1,034,024 | $ 822,018 |
| Cost of sales | (790,843) | (774,378) | (616,854) |
| Gross profit | 296,777 | 259,646 | 205,164 |
| Selling, general and administrative expenses | (130,294) | (121,696) | (112,621) |
| Engineering expenses | (32,701) | (32,762) | (33,795) |
| Amortization expense | (4,222) | (3,931) | (3,343) |
| Total operating expenses | (167,217) | (158,389) | (149,759) |
| Income from operations | 129,560 | 101,257 | 55,405 |
| Other income and expenses | | | |
| Interest expense, net | (1,586) | (8,686) | (11,528) |
| Other expense, net | (1,417) | (3,055) | (1,020) |
| Income from continuing operations before income taxes | 126,557 | 89,516 | 42,857 |
| Income tax expense | (40,063) | (31,831) | (10,761) |
| Income from continuing operations | 86,494 | 57,685 | 32,096 |
| Discontinued operations (net of tax) | (1,690) | (1,909) | 349 |
| Net income | $ 84,804 | $ 55,776 | $ 32,445 |
| **Earnings Per Common Share** | | | |
| Basic | | | |
| Income from continuing operations | $ 1.79 | $ 1.23 | $ 0.71 |
| (Loss) income from discontinued operations | (0.04) | (0.04) | 0.01 |
| Net income | $ 1.75 | $ 1.19 | $ 0.72 |
| Diluted | | | |
| Income from continuing operations | $ 1.76 | $ 1.21 | $ 0.70 |
| (Loss) income from discontinued operations | (0.03) | (0.04) | 0.01 |
| Net income | $ 1.73 | $ 1.17 | $ 0.71 |
| Weighted average shares outstanding | | | |
| Basic | 48,322 | 46,845 | 44,993 |
| Diluted | 49,108 | 47,595 | 45,787 |

*The accompanying notes are an integral part of these statements.*

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| *In thousands* | Year Ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | $ 84,804 | $ 55,776 | $ 32,445 |
| Adjustments to reconcile net income to cash provided by operations: | | | |
| Depreciation and amortization | 25,894 | 25,670 | 26,112 |
| Stock-based compensation expense | 9,191 | 3,302 | 1,434 |
| Deferred income taxes | 4,125 | 13,850 | 15,201 |
| Excess income tax benefits from exercise of stock options | (4,382) | — | — |
| Discontinued operations | 1,425 | 1,598 | (349) |
| Changes in operating assets and liabilities, net of acquisitions | | | |
| Accounts receivable | 45,669 | (53,580) | (14,844) |
| Inventories | (17,811) | (8,516) | (6,885) |
| Accounts payable | (7,359) | (6,012) | 14,832 |
| Accrued income taxes | 3,179 | 1,564 | (14,657) |
| Accrued liabilities and customer deposits | 5,024 | 51,156 | 14,580 |
| Other assets and liabilities | 1,268 | (487) | (14,389) |
| Net cash provided by operating activities | 151,027 | 84,321 | 53,480 |
| **Investing Activities** | | | |
| Purchase of property, plant and equipment | (20,942) | (22,662) | (19,262) |
| Proceeds from disposal of property, plant and equipment | 1,933 | 975 | 1,454 |
| Acquisitions of businesses, net of cash acquired | (87,201) | (35,916) | — |
| Discontinued operations | 1,448 | (4) | — |
| Net cash used for investing activities | (104,762) | (57,607) | (17,808) |
| **Financing Activities** | | | |
| Repayments of credit agreements | — | — | (40,000) |
| Repayments of other borrowings | — | (129) | (115) |
| Stock repurchase | (18,874) | — | — |
| Proceeds from treasury stock from stock based benefit plans | 14,630 | 29,804 | 22,774 |
| Excess income tax benefits from exercise of stock options | 4,382 | — | — |
| Cash dividends | (1,945) | (1,900) | (1,811) |
| Net cash (used for) provided by financing activities | (1,807) | 27,775 | (19,152) |
| Effect of changes in currency exchange rates | 2,156 | (8,381) | 8,409 |
| Increase in cash | 46,614 | 46,108 | 24,929 |
| Cash, beginning of year | 141,365 | 95,257 | 70,328 |
| Cash, end of year | $ 187,979 | $141,365 | $ 95,257 |

*The accompanying notes are an integral part of these statements.*

# WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| *In thousands* | Comprehensive Income (Loss) | Common Stock | Additional Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2003** | | $ 662 | $ 282,872 | $(267,586) | $ 252,234 | $ (19,889) |
| Cash dividends ($0.04 dividend per share) | | | | | (1,811) | |
| Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax | | | 3,822 | 19,565 | | |
| Net income | $ 32,455 | | | | 32,445 | |
| Translation adjustment | 10,346 | | | | | 10,346 |
| Unrealized gains on foreign exchange contracts, net of $1,925 tax | 3,350 | | | | | 3,350 |
| Unrealized gains on derivatives designated and qualified as cash flow hedges, net of $119 tax | 207 | | | | | 207 |
| Additional minimum pension liability, net of $(2,178) tax | (3,791) | | | | | (3,791) |
| Total comprehensive income | $ 42,557 | | | | | |
| **Balance, December 31, 2004** | | $ 662 | $ 286,694 | $(248,021) | $ 282,868 | $ (9,777) |
| Cash dividends ($0.04 dividend per share) | | | | | (1,900) | |
| Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax | | | 7,515 | 22,538 | | |
| Net income | $ 55,776 | | | | 55,776 | |
| Translation adjustment | (8,297) | | | | | (8,297) |
| Unrealized losses on foreign exchange contracts, net of $(1,556) tax | (2,708) | | | | | (2,708) |
| Additional minimum pension liability, net of $(3,531) tax | (6,143) | | | | | (6,143) |
| Total comprehensive income | $ 38,628 | | | | | |
| **Balance, December 31, 2005** | | $ 662 | $ 294,209 | $(225,483) | $ 336,744 | $ (26,925) |
| Cash dividends ($0.04 dividend per share) | | | | | (1,945) | |
| Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax | | | 7,702 | 11,310 | | |
| Stock-based Compensation | | | 8,967 | 224 | | |
| Reclass of stock liability | | | 3,874 | | | |
| Net income | $ 84,804 | | | | 84,804 | |
| Translation adjustment | 12,504 | | | | | 12,504 |
| Unrealized losses on foreign exchange contracts, net of $(978,000) tax | (1,702) | | | | | (1,702) |
| Additional minimum pension liability, net of $2,424 tax | 6,752 | | | | | 6,752 |
| Stock Repurchase | | | | (18,874) | | |
| Total comprehensive income | $ 102,358 | | | | | |
| Adjustment to initially apply SFAS 158, net of $(14,889) tax | | | | | | (22,934) |
| **Balance, December 31, 2006** | | $ 662 | $ 314,752 | $(232,823) | $ 419,603 | $ (32,305) |

*The accompanying notes are an integral part of these statements*

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 certain markets 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 2006, about 78% of the Company's revenues came from its North American operations, and Wabtec also sold products or services in 108 countries around the world.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Principles of Consolidation*** The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. Such statements have been prepared in accordance with generally accepted accounting principles. Sales between subsidiaries are billed at prices consistent with sales to third parties and are eliminated in consolidation.

***Cash Equivalents*** Cash equivalents are highly liquid investments purchased with an original maturity of three months or less.

***Allowance for Doubtful Accounts*** 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. The allowance for doubtful accounts was $3.6 million and $4.1 million as of December 31, 2006 and 2005, respectively.

***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.

***Property, Plant and Equipment*** Property, plant and equipment additions are stated at cost. Expenditures for renewals and improvements are capitalized. Expenditures for ordinary maintenance and repairs are expensed as incurred. The Company provides for book depreciation principally on the straight-line method. Accelerated depreciation methods are utilized for income tax purposes.

***Leasing Arrangements*** The Company conducts a portion of its operations from leased facilities and finances certain equipment purchases through lease agreements. In those cases in which the lease term approximates the useful life of the leased asset or the lease meets certain other prerequisites, the leasing arrangement is classified as a capital lease. The remaining arrangements are treated as operating leases.

***Intangible Assets*** Goodwill and other intangible assets with indefinite lives are not amortized. Other intangibles (with definite lives) are amortized on a straight-line basis over their estimated economic lives. Goodwill and indefinite lived intangible assets are reviewed annually for impairment and more frequently when indicators of impairment are present. Amortizable intangible assets are reviewed for impairment when indicators of impairment are present.

The evaluation of impairment involves comparing the current fair value of the business to the recorded value (including goodwill). The Company uses 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

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

of significant assumptions and estimates are involved in the application of the DCF model to forecasted 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 fair value that could be realized could differ from those used to evaluate the impairment of goodwill.

***Warranty Costs*** Warranty costs are accrued based on management's estimates of repair or upgrade costs per unit and historical experience. Warranty expense was $10.9 million, $7.8 million and $14.9 million for 2006, 2005 and 2004, respectively. Warranty reserves were $17.4 million and $16.2 million at December 31, 2006 and 2005, respectively.

***Income Taxes*** Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws. The provision for income taxes includes federal, state and foreign income taxes.

***Stock-Based Compensation*** Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123 (R), "Share-Based Payment," (SFAS) 123 (R)) 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, we 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. See Note 13 for a detailed discussion of the Company's stock-based compensation plans.

***Pro Forma Effect Prior to the Adoption of SFAS 123 (R)*** The Company's net income and earnings per share for 2005 and 2004 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".

| *In thousands, except per share* | For the year Ended December 31, 2005 | 2004 |
|---|---|---|
| Net income | | |
| As reported | $ 55,776 | $ 32,445 |
| Additional stock based compensation under FAS 123, net of tax | 1,135 | 1,722 |
| Pro forma | 54,641 | 30,723 |
| Basic earnings per share | | |
| As reported | $ 1.19 | $ 0.72 |
| Pro forma | 1.17 | 0.68 |
| Diluted earnings per share | | |
| As reported | $ 1.17 | $ 0.71 |
| Pro forma | 1.15 | 0.67 |

***Financial Derivatives and Hedging Activities*** The Company periodically enters into interest rate swap agreements to reduce the impact of interest rate changes on its variable rate borrowings. Interest rate swaps are agreements with a counterparty to exchange periodic interest payments (such as pay fixed, receive variable) calculated on a notional principal amount. The interest rate differential to be paid or received is recognized as interest expense. The Company has concluded its interest rate swap contracts qualify for "special cash flow hedge accounting" which permit recording the fair value of the swap and corresponding adjustment to other comprehensive income (loss) on the balance sheet. The Company's last interest rate swaps matured in 2004.

The Company also entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with a counterparty to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date the Company can either take delivery of the currency or settle on a net basis. All outstanding forward contracts are for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). The Company has also concluded that these foreign currency forward contracts qualify for cash flow hedge accounting which permits the recording of the fair value of the forward contract and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of December 31, 2006, the Company had forward contracts with a notional value of $48 million CAD (or $42.7 million U.S.), with an average exchange rate of $0.89 USD per $1 CAD, resulting in the recording of a current liability of $1.3 million and a corresponding offset in accumulated other comprehensive loss of $825,000, net of tax.

***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 intercompany transaction losses recognized in income were $1.1 million, $3.3 million and $1.2 million for 2006, 2005 and 2004, 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, foreign exchange contracts and pension related adjustments.

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

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

Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were $6.5 million, $4.9 million and $5.3 million at December 31, 2006, 2005 and 2004, respectively.

***Significant Customers and Concentrations of Credit Risk*** The Company's trade receivables are primarily from rail and transit industry original equipment manufacturers, Class I railroads, railroad carriers and commercial companies that utilize rail cars in their operations, such as utility and chemical companies. No one customer accounted for more than 10% of the Company's consolidated net sales in 2006, 2005 and 2004.

***Shipping and Handling Fees and Costs*** All fees billed to the customer for shipping and handling are classified as a component of net revenues. All costs associated with shipping and handling is classified as a component of cost of sales.

***Research and Development*** Research and development costs are charged to expense as incurred. For the years ended December 31, 2006, 2005 and 2004, the Company incurred costs of approximately $32.7 million, $32.8 million and $33.8 million, respectively.

***Employees*** As of December 31, 2006, approximately 41% of the Company's workforce was covered by collective bargaining agreements. These agreements are generally effective through 2007, 2008 and 2009. Agreements expiring in 2007 cover approximately 19% of the Company's workforce.

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

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

***Use of Estimates*** The preparation of financial statements in conformity with generally accepted accounting principles 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.

***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 cumulative effects, if any, of applying this Interpretation will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of this statement on its financial statements.

In September 2006, the 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 benefit 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 Company has adopted the provisions of SFAS 158 as of December 31, 2006. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented have not been restated. The adoption in 2006 had no effect on the computation of net periodic benefit expense for pensions and postretirement benefits. See Note 10 for the impact of the adoption on the Company's Consolidated Balance Sheet at December 31, 2006.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 October 6, 2006, the Company acquired 100% of the stock of Schaefer Equipment, Inc. (Schaefer), based in Warren, Ohio, a manufacturer of forged brake rigging components for freight cars. The purchase price was $36.3 million, net of cash received, resulting in additional goodwill of $23.9 million. Schaefer manufactures a variety of forged components for body-mounted and truck-mounted braking systems. In addition, on December 1, 2006, the Company acquired 100% of the stock of Becorit GmbH, (Becorit) a manufacturer of friction products for the European transit railway industry. The purchase price was $50.9 million, net of cash received, resulting in additional goodwill of $30.0 million. Becorit manufactures a variety of brake shoes, pads and friction linings for passenger transit cars, freight cars and locomotives, and also makes friction products for industrial markets such as mining and wind power generation.

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 company formed to hold the purchased assets of Rütgers Rail S.p.A. is named CoFren S.r.l. ("CoFren"). CoFren is a manufacturer 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.

The acquisitions were 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. Due to the timing of the acquisitions, we are still in the process of finalizing the valuations of the acquired assets and liabilities, and therefore the purchase price allocations are preliminary and subject to change once finalized. Operating results have been included in the consolidated statement of operations from the acquisition date forward.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

For the acquisitions that occurred in 2006, the following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

| *In thousands* | Schaefer October 6, 2006 | Becorit December 1, 2006 |
|---|---|---|
| Current assets | $ 13,300 | $ 16,200 |
| Property, plant & equipment | 3,800 | 15,300 |
| Intangible assets | 4,200 | 10,400 |
| Goodwill | 23,900 | 30,000 |
| Other assets | — | 1,900 |
| Total assets acquired | 45,200 | 73,800 |
| Current liabilities | 1,900 | 3,400 |
| Other liabilities | 4,100 | 17,500 |
| Total liabilities assumed | 6,000 | 20,900 |
| Net assets acquired | $ 39,200 | $ 52,900 |

For Schaefer, of the preliminary allocation of $4.2 million of acquired intangible assets, exclusive of goodwill, $1.9 million was assigned to customer relationships, $1.2 million was assigned to trademarks, and $1.1 million was assigned to energy supply contracts. The trademarks have been identified as infinite lived assets while the weighted average useful lives of the customer relationships and energy supply contracts is 20 years. For Becorit, of the preliminary allocation of $10.4 million of acquired intangible assets, exclusive of goodwill, $6.2 million was assigned to customer relationships, $3.2 million was assigned to the trade name, $700,000 was assigned to patents, and $300,000 was assigned to backlog. The trade name is considered to have an infinite useful life while the patents and customer relationships average useful life is 19 years.

The following unaudited pro forma financial information presents income statement results as if all the acquisitions listed above had occurred January 1, 2005:

| *In thousands, except per share* | For the year ended December 31, 2006 | 2005 |
|---|---|---|
| Net sales | 1,144,931 | 1,089,144 |
| Gross profit | 316,966 | 287,651 |
| Net income | 91,828 | 62,606 |
| Diluted earnings per share | | |
| As reported | $ 1.73 | $ 1.17 |
| Pro forma | $ 1.87 | $ 1.32 |

With the 2005 acquisition of Rütgers Rail, S.p.A., the Company decided to offer for sale a non-core product division. As part of the purchase accounting, the carrying value of this division had been adjusted 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 $1.4 million in cash, including a working capital adjustment of approximately $600,000 which was established with the buyer in the fourth quarter 2006. The assets sold primarily included transit car interior products and services for customers located in

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Europe. This sale resulted in a loss of approximately $1.7 million including the working capital adjustment. This adjustment is subject to review through independent arbitration and a ruling is expected sometime in late 2007. Also, in the fourth quarter of 2005, the Company decided to liquidate its bus door joint venture in China, which resulted in an impairment charge approximating $1 million.

In accordance with SFAS No. 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:

| | For the year ended December 31, | | |
|---|---|---|---|
| *In thousands* | 2006 | 2005 | 2004 |
| Net sales | $ 2,600 | $10,735 | $— |
| (Loss)/income before income taxes | (1,504) | (2,616) | 550 |
| Income tax (benefit)/expense | 186 | (707) | 201 |
| (Loss)/income from discontinued operations | $(1,690) | $ (1,909) | $349 |

## 4. SUPPLEMENTAL CASH FLOW DISCLOSURES

| | For the year ended December 31, | | |
|---|---|---|---|
| *In thousands* | 2006 | 2005 | 2004 |
| Interest paid during the year | $ 10,713 | $ 10,692 | $ 13,203 |
| Income taxes paid during the year | 33,065 | 9,506 | 7,376 |
| Business acquisitions: | | | |
| Fair value of assets acquired | $ 119,000 | $ 46,700 | $ — |
| Liabilities assumed | 26,900 | 10,100 | — |
| Cash paid | 92,100 | 36,600 | — |
| Less cash acquired | 4,900 | 700 | — |
| Net cash paid | $ 87,200 | $ 35,900 | $ — |

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 2006, 673,900 shares were repurchased at a total cost of $18.9 million.

## 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, pre-tax, in 2006 for restructuring and other expenses, as a result of the approval of this plan. These expenses were comprised of the following components: $1.2 million for employee severance costs associated with approximately 240 salaried and hourly employees located at our Wallaceburg and Stoney Creek locations; $2.2 million of pension and postretirement benefit curtailment for those employees; $2.9 million related to asset impairments for structures, machinery, and equipment; and $541,000 for goodwill impairment specific to the Wallaceburg facility. As of December 31, 2006, the employees associated with the restructuring program had been terminated and none of the severance had 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 2007, primarily for pension-related settlement charges. Pension funding will be subject to regulatory review and approval, and funding is anticipated to be made in 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 $235,000 of these costs were paid for as of December 31, 2005 with the remaining costs paid in 2006.

In the fourth quarter of 2005, the Company recorded restructuring charges of about $800,000 relating to consolidating two Australian facilities into one. During 2006, an additional $74,000 of restructuring charges was recorded. The total charges consisted of severance costs of $647,000 for 14 employees, relocation and other costs of $71,000, and an asset impairment of $56,000. As of December 31, 2006 all but $527,000 of these costs have been paid, which includes $305,000 of unpaid employee severance costs.

## 6. INVENTORY

The components of inventory, net of reserves, were:

| | December 31, | |
|---|---|---|
| *In thousands* | 2006 | 2005 |
| Raw materials | $ 51,685 | $ 38,724 |
| Work-in-process | 64,229 | 54,953 |
| Finished goods | 29,567 | 17,196 |
| Total inventory | $ 145,481 | $ 110,873 |

## 7. PROPERTY, PLANT & EQUIPMENT

The major classes of depreciable assets are as follows:

| | December 31, | |
|---|---|---|
| *In thousands* | 2006 | 2005 |
| Machinery and equipment | $ 284,884 | $ 259,219 |
| Buildings and improvements | 95,470 | 90,381 |
| Land and improvements | 7,686 | 6,995 |
| Locomotive leased fleet | 2,138 | 2,164 |
| PP&E | 390,178 | 358,759 |
| Less: accumulated depreciation | (211,869) | (197,158) |
| Total | $ 178,309 | $ 161,601 |

The estimated useful lives of property, plant and equipment are as follows:

| | Years |
|---|---|
| Land improvements | 10 to 20 |
| Buildings and improvements | 20 to 40 |
| Machinery and equipment | 3 to 15 |
| Locomotive leased fleet | 4 to 15 |

Depreciation expense was $21.7 million, $21.7 million and $22.8 million for 2006, 2005 and 2004, respectively.

## 8. INTANGIBLES

Goodwill and other intangible assets with indefinite lives are no longer amortized. Instead, they are subject to periodic assessments for impairment by applying a fair-value-based test. The fair value of these reporting units was determined using a combination of discounted cash flow analysis and market multiples based upon historical and projected financial information. Goodwill still remaining on the balance sheet is $173.3 million and $118.2 million at December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, the Company's trademarks had a net carrying amount of $24.0 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:

| | December 31, | |
|---|---|---|
| *In thousands* | 2006 | 2005 |
| Patents and other, net of accumulated amortization of $27,901 and $24,923 | $ 9,245 | $ 9,687 |
| Customer relationships, net of accumulated amortization of $387 and $145 | 11,239 | 3,018 |
| Covenants not to compete, net of accumulated amortization of $8,324 and $8,304 | — | 20 |
| Intangible pension asset | — | 6,457 |
| Total | $ 20,484 | $ 19,182 |

The weighted average useful life of patents was 13 years, customer relationships was 20 years, and of covenants not to compete was five years. Amortization expense for intangible assets was $3.5 million, $3.1 million and $2.4 million for the years ended December 31, 2006, 2005, and 2004, respectively. Amortization expense for the five succeeding years is as follows (in thousands):

| | |
|---|---|
| 2007 | $ 2,940 |
| 2008 | $ 2,872 |
| 2009 | $ 2,062 |
| 2010 | $ 1,491 |
| 2011 | $ 1,126 |

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

The change in the carrying amount of goodwill by segment for the year ended December 31, 2006 is as follows:

| *In thousands* | Freight Group | Transit Group | Total |
|---|---|---|---|
| Balance at December 31, 2005 | $ 88,962 | $ 29,219 | $ 118,181 |
| Acquisitions | 23,886 | 29,951 | 53,837 |
| Goodwill Impairment | (541) | — | (541) |
| Foreign currency impact | 684 | 1,090 | 1,774 |
| Balance at December 31, 2006 | $ 112,991 | $ 60,260 | $ 173,251 |

## 9. LONG-TERM DEBT

Long-term debt consisted of the following:

| *In thousands* | December 31, 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 |

*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 December 31, 2006, the Company had available bank borrowing capacity, net of $23.9 million of letters of credit, of approximately $151.1 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 year ended December 31, 2006.

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

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

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and "change of control" of the Company. The Refinancing Credit Agreement includes the following covenants: a minimum interest coverage ratio of 3, maximum debt to cash flow ratio of 3.25 and a minimum net worth of $180 million plus 50% of consolidated net income since September 30, 2003. The Company is in compliance with these measurements and covenants.

The Company entered into an amendment to its Refinancing Credit Agreement in February 2007. Prior to the amendment, the Refinancing Credit Agreement prohibited the Company from making acquisitions past a certain dollar limit without the prior approval of the bank consortium. The Refinancing Credit Agreement now permits the Company to complete any acquisitions as long as certain financial parameters and ratios are met.

*6.875% Senior Notes Due August 2013*

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

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

## 10. EMPLOYEE BENEFIT PLANS

The Company sponsors various defined benefit plans including pension and post retirement benefits as disclosed below. In addition, as previously stated, the Company has adopted the provisions of SFAS 158 as of December 31, 2006, excluding the elimination of the early measurement date, which is not required until December 31, 2008. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented have not been restated. The adoption in 2006 had no effect on the computation of net periodic benefit expense for pensions and postretirement benefits. The following table illustrates the incremental effect of applying SFAS 158 on individual items on the Company's consolidated balance sheet at December 31, 2006.

| *In thousands* | Before Application of SFAS 158 | Adjustments | After Application of SFAS 158 |
|---|---|---|---|
| Deferred Income taxes | $ 1,700 | $ 14,888 | $ 16,588 |
| Prepaid benefit cost | 3,243 | (3,243) | — |
| Intangible assets | 4,378 | (4,378) | — |
| **Total Assets** | **$ 965,575** | **$ 7,267** | **$ 972,842** |
| Reserve for postretirement benefits—current | 2,948 | — | 2,948 |
| Reserve for postretirement benefits—long term | 22,976 | 18,748 | 41,724 |
| Reserve for pension benefits—long term | 21,334 | 11,453 | 32,787 |
| **Total Liabilities** | **472,752** | **30,201** | **502,953** |
| Accumulated other comprehensive loss | (9,371) | (22,934) | (32,305) |
| Total shareholders' equity | 492,823 | (22,934) | 469,889 |
| **Total Liabilities and Shareholders' Equity** | **$ 965,575** | **$ 7,267** | **$ 972,842** |

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Defined Benefit Pension Plans**

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

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

*Obligations and Funded Status*

| *In thousands* | U.S. 2006 | U.S. 2005 | International 2006 | International 2005 |
|---|---|---|---|---|
| **Change in projected benefit obligation** | | | | |
| Obligation at beginning of year | $(49,770) | (46,122) | (103,578) | $ (89,530) |
| Service cost | (354) | (341) | (3,658) | (2,926) |
| Interest cost | (2,675) | (2,670) | (5,645) | (5,156) |
| Employee contributions | — | — | (581) | (576) |
| Plan curtailments | — | — | (701) | — |
| Special termination benefits | — | (280) | — | (409) |
| Benefits paid | 4,036 | 3,949 | 3,737 | 3,506 |
| Expenses paid | — | — | 384 | 175 |
| Premiums paid | — | — | 199 | — |
| Acquisitions | — | — | (9,769) | — |
| Actuarial loss (gain) | 357 | (4,306) | (3,501) | (10,663) |
| Effect of currency rate changes | — | — | (6,381) | 2,001 |
| Obligation at end of year | $(48,406) | $(49,770) | $(129,494) | $(103,578) |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of year | $ 36,590 | 32,877 | $ 83,700 | $ 71,551 |
| Actual return on plan assets | 4,174 | 1,662 | 12,740 | 9,799 |
| Employer contributions | 2,460 | 6,000 | 8,720 | 7,065 |
| Employee contributions | — | — | 581 | 576 |
| Benefits paid | (4,036) | (3,949) | (3,737) | (3,506) |
| Expenses paid | — | | (384) | (175) |
| Premiums paid | — | | (199) | — |
| Effect of currency rate changes | — | | 4,504 | (1,610) |
| Fair value of plan assets at end of year | $ 39,188 | $ 36,590 | $ 105,925 | $ 83,700 |
| **Funded status** | | | | |
| Funded status at year end | $ (9,218) | $(13,180) | $ (23,569) | $ (19,878) |
| Unrecognized net actuarial loss | 21,647 | 24,840 | 22,585 | 26,143 |
| Unrecognized prior service cost | 436 | 495 | 3,798 | 4,948 |
| Unrecognized transition obligation | — | — | 2,891 | 2,908 |
| Prepaid benefit cost | $ 12,865 | $ 12,155 | $ 5,705 | $ 14,121 |
| **Amounts recognized in the statement of financial position include:** | | | | |
| Reserve for pension benefits—non current | $ (9,218) | $(12,679) | $ (23,569) | $ (8,960) |
| Intangible assets | — | 495 | — | 5,962 |
| Accumulated other comprehensive loss | 22,083 | 24,339 | 29,274 | 17,119 |
| Prepaid benefit cost | $ 12,865 | $ 12,155 | $ 5,705 | $ 14,121 |

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The aggregate accumulated benefit obligation for the U.S. pension plan was $47.8 million and $49.3 million as of December 31, 2006 and 2005, respectively. The aggregate accumulated benefit obligation for the international pension plans was $116.2 million and $92.8 million as of December 31, 2006 and 2005, respectively. Benefit obligations exceeded plan assets for all pension plans at the end of both years.

*Components of Net Periodic Benefit Cost*

| | U.S. | | | International | | |
|---|---|---|---|---|---|---|
| ***In thousands*** | **2006** | **2005** | **2004** | **2006** | **2005** | **2004** |
| Service cost | $ 354 | $ 341 | $ 347 | $ 3,658 | $ 2,926 | $ 2,471 |
| Interest cost | 2,675 | 2,670 | 2,722 | 5,645 | 5,156 | 4,439 |
| Expected return on plan assets | (2,912) | (2,866) | (2,571) | (5,889) | (5,057) | (4,379) |
| Amortization of initial net obligation | — | — | — | 247 | 243 | 246 |
| Amortization of prior service cost | 59 | 170 | 261 | 640 | 627 | 558 |
| Amortization of net loss | 1,575 | 1,031 | 755 | 1,209 | 898 | 609 |
| Curtailment loss recognized | — | — | — | 1,368 | — | — |
| Settlement loss recognized | — | — | — | 71 | — | — |
| Special termination benefit recognized | — | 280 | — | — | 409 | — |
| Net periodic benefit cost | $ 1,751 | $ 1,626 | $ 1,514 | $ 6,949 | $ 5,202 | $ 3,944 |

During 2006, the Company recorded decreases in the minimum liability, net of tax, for the U.S. plan and international plans of $3.1 million and $3.7 million, respectively reducing the accumulated other comprehensive loss. During 2005, the Company recorded increases in the minimum liability, net of tax, for the U.S. plan and international plans of $3.0 million and $3.1 million, respectively increasing accumulated other comprehensive loss.

The weighted average assumptions in the following table represent the rates used to develop the actuarial present value of the projected benefit obligation for the year listed and also the net periodic benefit cost for the following year.

| | U.S. | | | International | | |
|---|---|---|---|---|---|---|
| | **2006** | **2005** | **2004** | **2006** | **2005** | **2004** |
| Discount rate | 5.80% | 5.50% | 6.00% | 5.11% | 5.07% | 5.83% |
| Expected return on plan assets | 8.00% | 8.00% | 8.00% | 6.70% | 6.50% | 7.10% |
| Rate of compensation increase | 3.00% | 3.00% | 3.00% | 3.62% | 3.68% | 3.74% |

The discount rate is based on settling the pension obligation with high grade, high yield corporate bonds, and the rate of compensation increase is based on actual experience. The expected return on plan assets is based on historical performance as well as expected future rates of return on plan assets considering the current investment portfolio mix and the long-term investment strategy.

As of December 31, 2006 the following table represents the amounts included in other comprehensive loss that are expected to be recognized as components of periodic benefit costs in 2007.

| ***In thousands*** | **U.S.** | **International** |
|---|---|---|
| Net transition asset | $ — | $ 262 |
| Prior service credit | 59 | 537 |
| Net gain | 1,555 | 763 |
| | $1,614 | $ 1,562 |

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*Pension Plan Assets*

The composition of all plan assets consists primarily of equities, corporate bonds, governmental notes and temporary investments. This Plan's target and actual asset allocations at the respective measurement dates for 2006 and 2005 by asset category are as follows:

| | U.S. | | | International | | |
|---|---|---|---|---|---|---|
| | Target | 2006 | 2005 | Target | 2006 | 2005 |
| Equity securities | 60% | 60% | 60% | 52% - 74% | 63% | 65% |
| Debt securities | 40% | 39% | 39% | 27% - 41% | 34% | 32% |
| Other, including cash equivalents | 0% | 1% | 1% | 0% - 7% | 3% | 3% |
| | 100% | 100% | 100% | 100% | 100% | 100% |

Investment policies are determined by the respective Plan's Pension Committee and set forth in its Investment Policy. Pursuant to the Investment Policy for the U.S., the investment strategy is to use passive index funds managed by the Bank of New York. The Company is evaluating allocation policies for its international plans. Rebalancing of the asset allocation occurs on a quarterly basis.

*Cash Flows*

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense, which is primarily based on the projected unit credit method applied in the accompanying financial statements. The Company expects to contribute $5.9 million to the U.S. plan and $7.8 million to the international plans during 2007.

Benefit payments expected to be paid to plan participants are as follows:

| *In thousands* | U.S. | International |
|---|---|---|
| Year ended December 31, | | |
| 2007 | $ 3,850 | $ 4,295 |
| 2008 | 3,753 | 4,053 |
| 2009 | 3,768 | 4,315 |
| 2010 | 3,675 | 4,660 |
| 2011 | 3,587 | 4,880 |
| 2012 through 2016 | 18,657 | 32,319 |
| Total | $37,290 | $ 54,522 |

*Post Retirement Benefit Plans*

In addition to providing pension benefits, the Company has provided certain unfunded postretirement health care and life insurance benefits for a portion of North American employees. In January 1995 the postretirement health care and life insurance benefits for U.S. salaried employees was modified to discontinue benefits for employees who had not attained the age of 50 by March 31, 1995. The Company is not obligated to pay health care and life insurance benefits to individuals who had retired prior to 1990.

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

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

*Obligations and Funded Status*

| *In thousands* | U.S. 2006 | U.S. 2005 | International 2006 | International 2005 |
|---|---|---|---|---|
| **Change in projected benefit obligation** | | | | |
| Obligation at beginning of year | $(44,967) | (38,789) | (7,406) | (6,524) |
| Service cost | (434) | (698) | (256) | (236) |
| Interest cost | (2,247) | (2,021) | (377) | (378) |
| Plan amendments | 3,182 | 759 | — | — |
| Plan curtailments | — | 1,878 | 721 | 945 |
| Special termination benefits | — | — | — | (72) |
| Benefits paid | 2,026 | 2,564 | 200 | 161 |
| Acquisitions | (1,599) | — | — | — |
| Actuarial loss (gain) | 6,167 | (8,660) | 339 | (1,066) |
| Effect of currency rate changes | | — | (21) | (236) |
| Obligation at end of year | $(37,872) | $(44,967) | $(6,800) | $(7,406) |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of year | $ — | $ — | $ — | $ — |
| Employer contributions | 2,026 | 2,564 | 200 | 161 |
| Benefits paid | (2,026) | (2,564) | (200) | (161) |
| Fair value of plan assets at end of year | $ — | $ — | $ — | $ — |
| **Funded status** | | | | |
| Funded status at year end | $(37,872) | $(44,967) | $(6,800) | $(7,406) |
| Unrecognized net actuarial loss | 38,386 | 46,739 | 539 | 1,371 |
| Unrecognized prior service credit | (23,034) | (22,250) | — | — |
| Unrecognized transition obligation | — | — | 2,857 | 4,157 |
| Accrued benefit cost | $(22,520) | $(20,478) | $(3,404) | $(1,878) |
| **Amounts recognized in the statement of financial position include:** | | | | |
| Reserve for postretirement benefits—current portion | $ (2,743) | $ (2,026) | $ (205) | $ (200) |
| Reserve for postretirement benefits | (35,129) | (18,452) | (6,595) | (1,678) |
| Accumulated other comprehensive loss | 15,352 | — | 3,396 | — |
| Accrued benefit cost | $(22,520) | $(20,478) | $(3,404) | $(1,878) |

*Components of Net Periodic Benefit Cost*

| *In thousands* | U.S. 2006 | U.S. 2005 | U.S. 2004 | International 2006 | International 2005 | International 2004 |
|---|---|---|---|---|---|---|
| Service cost | $ 434 | $ 698 | $ 366 | $ 256 | $ 236 | $ 218 |
| Interest cost | 2,247 | 2,021 | 1,631 | 377 | 378 | 345 |
| Amortization of initial net obligation | — | — | — | 284 | 336 | 350 |
| Amortization of prior service cost | (2,397) | (2,212) | (1,975) | — | — | — |
| Amortization of net loss | 2,185 | 2,513 | 3,610 | 24 | — | — |
| Curtailment loss recognized | — | 8 | — | 826 | 148 | 3 |
| Total benefit cost | $ 2,469 | $ 3,028 | $ 3,632 | $ 1,767 | $ 1,098 | $ 916 |

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

The weighted average assumptions in the following table represent the rates used to develop the actuarial present value of the projected benefit obligation for the year listed and also the net periodic benefit cost for the following year. The discount rate is based on settling the pension obligation with high grade, high yield corporate bonds.

| | U.S. | | | International | | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Discount rate | 5.80% | 5.50% | 6.00% | 5.25% | 5.00% | 6.00% |

As of December 31, 2006 the following table represents the amounts included in other comprehensive loss that are expected to be recognized as components of periodic benefit costs in 2007.

| *In thousands* | U.S. | International |
|---|---|---|
| Net transition asset | $ — | $ 229 |
| Prior service credit | (2,420) | — |
| Net gain | 2,088 | — |
| | $ (332) | $ 229 |

The assumed health care cost trend rate for the U.S. plans grades from an initial rate of 10% to an ultimate rate of 5% by 2011 and for international plans from 7.92% to 4.85% by 2013. A 1% increase in the assumed health care cost trend rate will increase the amount of expense recognized for the U.S. and international postretirement plans by approximately $0.4 million and $0.1 million, respectively, for 2007, and increase the service and interest cost components of the accumulated postretirement benefit obligation by approximately $4.7 million and $1.2 million, respectively. A 1% decrease in the assumed health care cost trend rate will decrease the service and interest cost components of the expense recognized for the U.S. and international postretirement plans by approximately $0.3 million and $0.1 million, respectively, for 2007, and decrease the accumulated postretirement benefit obligation by approximately $3.9 million and $1.0 million, respectively.

*Cash Flows*

Benefit payments expected to be paid to plan participants are as follows:

| *In thousands* | U.S. | International |
|---|---|---|
| Year ended December 31, | | |
| 2007 | $ 2,742 | $ 206 |
| 2008 | 2,713 | 231 |
| 2009 | 2,757 | 259 |
| 2010 | 2,676 | 288 |
| 2011 | 2,605 | 313 |
| 2012 through 2016 | 11,778 | 2,089 |
| Total | $25,271 | $ 3,386 |

**Defined Contribution Plans**

The Company also participates in certain 401(k) and multiemployer pension plans. Costs recognized under these plans are summarized as follows:

| *In thousands* | For the year ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Multi-employer pension and health & welfare plans | $ 1,219 | $ 1,123 | $ 571 |
| 401(k) savings and other defined contribution plans | 6,531 | 5,948 | 5,707 |
| Total | $ 7,750 | $ 7,071 | $ 6,278 |

The 401(k) savings plan is a participant directed defined contribution plan that holds shares of the Company's stock as one of the investment options. At December 31, 2006 and 2005, the plan held on behalf of its participants about 562,000 shares with a market value of $17.1 million, and 646,000 shares with a market value of $17.4 million, respectively.

Additionally, the Company has stock option based benefit and other plans further described in Note 13.

## 11. INCOME TAXES

The Company is responsible for filing consolidated U.S., foreign and combined, unitary or separate state income tax returns. The Company is responsible for paying the taxes relating to such returns, including any subsequent adjustments resulting from the redetermination of such tax liabilities by the applicable taxing authorities. The components of the income from continuing operations before provision for income taxes for the Company's domestic and foreign operations for the years ended December 31 are provided below:

| *In thousands* | For the year ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Domestic | $ 98,675 | $ 45,954 | $ 29,852 |
| Foreign | 27,882 | 43,562 | 13,005 |
| Income from continuing operations | $ 126,557 | $ 89,516 | $ 42,857 |

No provision has been made for U.S., state, or additional foreign taxes related to undistributed earnings of $72 million of foreign subsidiaries which have been or are intended to be permanently re-invested.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The consolidated provision for income taxes included in the Statement of Income consisted of the following:

| *In thousands* | For the year ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Current taxes | | | |
| Federal | $25,787 | $ 6,384 | $ (8,676) |
| State | 1,951 | 1,212 | 714 |
| Foreign | 8,386 | 9,678 | 3,723 |
| | $36,124 | $17,274 | $ (4,239) |
| Deferred taxes | | | |
| Federal | 8,201 | 8,915 | 13,796 |
| State | (2,651) | 314 | (284) |
| Foreign | (1,425) | 4,621 | 1,689 |
| | 4,125 | 13,850 | 15,201 |
| Total provision | $40,249 | $31,124 | $10,962 |

Consolidated income tax provision is included in the Statement of Income as follows:

| *In thousands* | For the year ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Continuing operations | $ 40,063 | $ 31,831 | $ 10,761 |
| Income (loss) from discontinued operations | 186 | (707) | 201 |
| Total provision | $ 40,249 | $ 31,124 | $ 10,962 |

A reconciliation of the United States federal statutory income tax rate to the effective income tax rate on continuing operations for the years ended December 31 is provided below:

| *In thousands* | For the year ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| U. S. federal statutory rate | 35.0% | 35.0% | 35.0% |
| State taxes | 2.1 | 1.4 | 0.2 |
| Adjustment to prior year matters | (0.9) | — | (11.4) |
| Change in valuation allowance | (4.2) | 0.5 | 0.8 |
| Deferred rate/balance adjustment | 1.2 | — | 2.7 |
| Foreign | (1.1) | 0.1 | 0.2 |
| Research and development credit | (0.5) | (0.6) | (2.3) |
| Other, net | 0.1 | (0.8) | (0.1) |
| Effective rate | 31.7% | 35.6% | 25.1% |

The effective income tax rate for 2006 includes a tax benefit for the release of a valuation allowance related to certain deferred state tax assets in the amount of $5.3 million based on management's determination that it is more likely than not that future taxable income will be sufficient to realize these assets.

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The overall effective income tax rate in 2004 includes a tax benefit of $4.9 million, which is primarily related to the reversal of certain items that had previously been provided for and that have been closed from further regulatory examination.

Deferred income taxes result from temporary differences in the recognition of income and expense for financial and income tax reporting purposes. These deferred income taxes will be recognized as future tax benefits or costs when the temporary differences reverse.

Components of deferred tax assets and (liabilities) were as follows:

| *In thousands* | December 31, 2006 | December 31, 2005 |
|---|---|---|
| Deferred income tax assets (liabilities): | | |
| Accrued expenses and reserves | $ 5,822 | $ 7,698 |
| Warranty reserve | 6,625 | 5,823 |
| Deferred comp/employee benefits | 9,539 | 6,881 |
| Pension and postretirement obligations | 25,947 | 18,618 |
| Inventory | (836) | 6,025 |
| Property, plant & equipment | (18,205) | (21,602) |
| Intangibles | (6,531) | (401) |
| State net operating loss | 6,565 | 9,455 |
| Foreign net operating loss | 2,683 | 2,920 |
| Tax credit carry forwards | 601 | 7,438 |
| Other | (42) | (873) |
| Gross deferred income tax assets | 32,168 | 41,982 |
| Valuation allowance | (5,821) | (15,096) |
| Total deferred income tax assets | $ 26,347 | $ 26,886 |

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. State and foreign net operating loss carryforwards exist in the amount of $131 million and $9 million, respectively, and are set to expire in various periods from 2007 to 2026. A valuation allowance still exists and/or has been established for certain of these net operating loss carryforwards.

Federal tax credits of approximately $5 million related to Research and Experimentation credits and Alternative Minimum Tax credits have been fully utilized in 2006. State tax credits of approximately $501,000 are available and consist of various Machinery & Equipment, Research and Experimentation, and Jobs related credits.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 12. EARNINGS PER SHARE

The computation of earnings per share from continuing operations is as follows:

| *In thousands, except per share* | For the year ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| **Basic** | | | |
| Income from continuing operations applicable to common shareholders | $ 86,494 | $ 57,685 | $ 32,096 |
| Divided by: | | | |
| Weighted average shares outstanding | 48,322 | 46,845 | 44,993 |
| Basic earnings from continuing operations per share | $ 1.79 | $ 1.23 | $ 0.71 |
| **Diluted** | | | |
| Income from continuing operations applicable to common shareholders | $ 86,494 | $ 57,685 | $ 32,096 |
| Divided by the sum of: | | | |
| Weighted average shares outstanding | 48,322 | 46,845 | 44,993 |
| Assumed conversion of dilutive stock-based compensation plans | 786 | 750 | 794 |
| Diluted shares outstanding | 49,108 | 47,595 | 45,787 |
| Diluted earnings from continuing operations per share | $ 1.76 | $ 1.21 | $ 0.70 |

Options to purchase approximately 4,400, 13,000 and 589,000 shares of Common Stock were outstanding in 2006, 2005 and 2004, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price exceeded the average market price of the common shares.

## 13. STOCK-BASED COMPENSATION PLANS

As of December 31, 2006, the Company maintains employee stock-based compensation plans for stock options, non-vested restricted stock, and incentive stock awards as governed by the 2000 Stock Incentive Plan, as amended (the 2000 Plan). The 2000 Plan was amended effective February 16, 2006 to increase the maximum shares then available for future grants under the existing plan of 719,512 by 2,000,000 shares. As of December 31, 2006 shares available for future grants under the 2000 Plan is 2,424,012 shares. No awards may be made under the 2000 Plan subsequent to January 31, 2016. The Company also maintains an Employee Stock Purchase Plan and a Non-Employee Directors' Fee and Stock Option Plan (Directors Plan).

Stock-based compensation expense was $9.2 million, $3.3 million and $1.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. The Company recognized associated tax benefits related to the stock-based compensation plans of $3.4 million, $1.2 million and $0.5 million for the respective periods. Included in the stock-based compensation expense for 2006 above is $1.3 million of expense related to stock options, as a result of the adoption of FAS 123 (R) on January 1, 2006, $2.5 million related to non-vested restricted stock, $4.9 million related to incentive stock awards, and approximately $500,000 related to awards issued for directors' fees. 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). At December 31, 2006, unamortized compensation expense related to those stock options, non-vested restricted shares and incentive stock awards expected to vest totaled $10.9 million and will be recognized over a weighted average period of 1.3 years.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Stock Options** Under the 2000 Stock Incentive Plan (the 2000 Plan), stock options are granted to eligible employees at a price not less than market prices on the dates of grant. Generally, the options become exercisable over a three-year vesting period and expire ten years from the date of grant.

The Directors Plan, as amended, authorizes a total of 500,000 shares of Common Stock to be issued. Generally, options issued under the plan become exercisable over a three-year vesting period and expire ten years from the date of grant. In addition, as compensation for directors fees, total of 10,500 shares have been awarded to non-employee directors in each of the years ended December 31, 2006, 2005 and 2004. No awards may be made under the plan subsequent to October 31, 2016. The total number of shares issued under the plan as of December 31, 2006 was 222,000 shares.

As part of a long-term incentive program, in 1998, the Company granted options to purchase up to 500,020 shares at $20 per share, to certain executives under a plan that preceded the 2000 Plan. No further grants may be made under this plan.

A summary of the Company's stock option activity and related information for the year ended December 31, 2006 follows:

| | 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 | | |
| Granted | 39,500 | 27.38 | | |
| Exercised | (846,074) | 15.29 | | |
| Canceled | (21,837) | 16.48 | | |
| End of year—December 31, 2006 | 1,375,654 | $ 13.52 | 5.8 | $ 23,198 |
| Exercisable | 1,096,799 | $ 12.25 | 5.3 | $ 19,898 |

The total intrinsic value of options exercised for the years ended December 31, 2006, 2005 and 2004 was $14.5 million, $16.2 million and $8.2 million, respectively.

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:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Dividend yield | .3% | .3% | .3% |
| Risk-free interest rate | 4.2% | 4.3% | 4.9% |
| Stock price volatility | 43.3 | 43.5 | 46.1 |
| Expected life *(years)* | 5.0 | 5.0 | 5.0 |
| Weighted average fair value of options granted during the year | $11.38 | $7.28 | $6.61 |

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

**Non-Vested Restricted Stock and Incentive Stock Awards** In 2006, under the 2000 Plan, the Company issued 200,500 of the non-vested restricted stock to executives in February 2006. The non-vested stock generally vests over four years from the date of grant. In addition, the Company has issued incentive stock awards in 2004, 2005 and 2006 to eligible employees that vest upon attainment of certain three year performance goals for each three year period ending December 31, 2006, 2007 and 2008, respectively. At December 31, 2006, stock awards issued under the incentive plan are awarded but not vested.

The incentive stock awards included in the table below represent the maximum number of shares that may ultimately vest. As of December 31, 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.

The following table summarizes the non-vested restricted stock and incentive stock awards activity and related information for the year ended December 31, 2006:

| | Non-Vested Restricted Stock | Incentive Stock Awards | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Outstanding at January 1, 2006 | — | 518,666 | $ 15.83 |
| Granted | 200,500 | 187,000 | 34.06 |
| Vested | — | — | — |
| Canceled | (3,000) | (4,000) | 23.16 |
| Outstanding at December 31, 2006 | 197,500 | 701,666 | $ 23.63 |

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

**Employee Stock Purchase Plan** In 1998, the Company adopted an employee discounted stock purchase plan (DSPP). The DSPP had 500,000 shares available for issuance. Participants could purchase the Company's common stock at 85% of the lesser of fair market value on the first or last day of each offering period. Stock outstanding under this plan at December 31, 2006 was 151,794 shares. The plan was terminated effective January 1, 2007.

## 14. OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss were:

| | December 31, | |
|---|---|---|
| *In thousands* | 2006 | 2005 |
| Foreign currency translation adjustment | $ 11,028 | $ (1,476) |
| Unrealized gains (losses) on foreign exchange contracts, net of tax of $(474) and $504 | (825) | 877 |
| Additional minimum pension liability, net of tax of $(12,708) and $(15,132) | (19,574) | (26,326) |
| Adoption of SFAS 158, net of tax of $(14,889) and $(-) | (22,934) | — |
| Total accumulated other comprehensive loss | $ (32,305) | $ (26,925) |

## 15. OPERATING LEASES

The Company leases office and manufacturing facilities under operating leases with terms ranging from one to 15 years, excluding renewal options.

The Company has sold remanufactured locomotives to various financial institutions and leased them back under operating leases with terms from five to 20 years.

Total net rental expense charged to operations in 2006, 2005, and 2004 was $6.8 million, $7.2 million and $7.8 million respectively. Certain of the Company's equipment rental obligations under operating leases pertain to locomotives, which are subleased to customers under both short-term and long-term agreements. The amounts above are shown net of sublease rentals of $1.9 million, $2.9 million and $2.2 million for the years 2006, 2005 and 2004, respectively.

Future minimum rental payments under operating leases with remaining non-cancelable terms in excess of one year are as follows:

| *In thousands* | Real Estate | Equipment | Sublease Rentals | Total |
|---|---|---|---|---|
| 2007 | $5,277 | $ 1,714 | $ 272 | $6,719 |
| 2008 | 4,766 | 1,368 | 272 | 5,862 |
| 2009 | 3,721 | 486 | — | 4,207 |
| 2010 | 3,389 | 201 | — | 3,590 |
| 2011 | 2,682 | 148 | — | 2,830 |
| 2012 and after | 6,632 | 268 | — | 6,900 |

## 16. GUARANTEES

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

| In thousands | For the year ended December 31, 2006 | 2005 |
|---|---|---|
| Balance at beginning of period | $16,158 | $17,413 |
| Warranty expense | 10,865 | 7,801 |
| Warranty payments | (9,624) | (9,056) |
| Balance at end of period | $17,399 | $16,158 |

## 17. PREFERRED STOCK

The Company's authorized capital stock includes 1,000,000 shares of preferred stock. The Board of Directors has the authority to issue the preferred stock and to fix the designations, powers, preferences and rights of the shares of each such class or series, including dividend rates, conversion rights, voting rights, terms of redemption and liquidation preferences, without any further vote or action by the Company's shareholders. The rights and preferences of the preferred stock would be superior to those of the common stock. At December 31, 2006 and 2005 there was no preferred stock issued or outstanding.

## 18. COMMITMENTS AND CONTINGENCIES

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

Under terms of the purchase agreement and related documents for the 1990 Acquisition, American Standard, Inc. ("ASI") has indemnified the Company for certain items including, among other things, certain environmental claims the Company asserted prior to 2000. If ASI was unable to honor or meet these indemnifications, the Company would be responsible for such items. In the opinion of management, ASI currently has the ability to meet its indemnification obligations.

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

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

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

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

The Company is subject to a RCRA Part B Closure Permit ("the Permit") issued by the Environmental Protection Agency (EPA) and the Idaho Department of Health and Welfare, Division of Environmental Quality relating to the monitoring and treatment of groundwater contamination on, and adjacent to, the MotivePower Inc. (Boise, Idaho) facility. In compliance with the Permit, the Company has completed an accelerated plan for the treatment of contaminated groundwater, and continues onsite and offsite monitoring for hazardous constituents. An additional $970,000 was accrued in 2004 based on our refined estimates of ongoing monitoring costs. The Company reevaluated the reserve and reversed $280,000 to earnings in 2005. In total, the Company has accrued approximately $727,000 at December 31, 2006, the estimated remaining costs for remediation and monitoring. The Company was in compliance with the Permit at December 31, 2006.

Foster Wheeler Energy Corporation (FWEC), the seller of the Mountaintop, Pennsylvania property to the predecessor of one of the Company's subsidiaries in 1989, agreed to indemnify the Company's predecessor and its successors and assigns against certain identified environmental liabilities for which FWEC executed a Consent Order Agreement with the Pennsylvania Department of Environmental Protection (PADEP) and EPA. Management believes that this indemnification arrangement is enforceable for the benefit of the Company and that FWEC has the financial resources to honor its obligations under this indemnification arrangement.

Prior to the Company's acquisition of Young Radiator, Young agreed to clean up alleged contamination on a prior production site in Mattoon, Illinois. The Company has completed the remediation of the site under the state's voluntary cleanup program and is now in the process of obtaining closure certification for the site from the State of Illinois. The Company has accrued $3,500 at December 31, 2006 as its estimate of the obtaining the closure certification.

Young ceased manufacturing operations at its Racine, Wisconsin facility in the early 1990s. Investigations prior to the acquisition of Young revealed some levels of contamination on the Racine property. The Company has completed a comprehensive site evaluation and implemented a groundwater remediation program under Wisconsin's voluntary remediation program. Site monitoring is being conducted to demonstrate attainment of Wisconsin's cleanup requirements. The Company believes the regulating authority is generally in agreement with the selected remediation approach and findings presented to-date. The Company has accrued approximately $142,000 at December 31, 2006 as its estimate of the remaining remediation costs.

The Company has other contingent obligations relating to certain sales leaseback transactions, for locomotives that were assumed in connection with the MotivePower merger in 1999, for which reserves of $1.5 million remain as of December 31, 2006.

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 Faiveley Transport. Wabtec did provide and machined 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.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 informed Wabtec's Audit Committee, Board of Directors, and the appropriate authorities.

From time to time the Company is involved in litigation relating to claims arising out of its operations in the ordinary course of business. As of the date hereof, the Company is involved in no litigation that the Company believes will have a material adverse effect on its financial condition, results of operations or liquidity.

## 19. 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.

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

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 in 2006, the Company transferred certain operations between the Freight and Transit Group to reflect a shift in the markets and customers served by those operations and to reflect the information used by the chief decision maker in evaluation the operations of the Company. In addition, beginning in 2006, the company has allocated certain corporate costs to the Freight and Transit groups to reflect the beneficial use of these costs by the specific groups. Prior period results have been adjusted for comparability purposes.

Segment financial information for 2006 is as follows:

| *In thousands* | Freight Group | Transit Group | Corporate Activities and Elimination | Total |
|---|---|---|---|---|
| Sales to external customers | $ 709,353 | $ 378,267 | — | $ 1,087,620 |
| Intersegment sales/(elimination) | 14,451 | 628 | (15,079) | — |
| Total sales | $ 723,804 | $ 378,895 | $ (15,079) | $ 1,087,620 |
| Income (loss) from operations | $ 109,787 | $ 32,495 | $ (12,722) | $ 129,560 |
| Interest expense and other | — | — | (3,003) | (3,003) |
| Income (loss) from continuing operations before income taxes | $ 109,787 | $ 32,495 | $ (15,725) | $ 126,557 |
| Depreciation and amortization | 16,445 | 7,562 | 1,887 | 25,894 |
| Capital expenditures | 15,389 | 4,779 | 774 | 20,942 |
| Segment assets | 606,286 | 352,108 | 14,448 | 972,842 |

Segment financial information for 2005 is as follows:

| *In thousands* | Freight Group | Transit Group | Corporate Activities and Elimination | Total |
|---|---|---|---|---|
| Sales to external customers | $ 677,096 | $ 356,928 | — | $ 1,034,024 |
| Intersegment sales/(elimination) | 12,715 | 331 | (13,046) | — |
| Total sales | $ 689,811 | $ 357,259 | $ (13,046) | $ 1,034,024 |
| Income (loss) from operations | $ 74,419 | $ 35,550 | $ (8,712) | $ 101,257 |
| Interest expense and other | — | — | (11,741) | (11,741) |
| Income (loss) from continuing operations before income taxes | $ 74,419 | $ 35,550 | $ (20,453) | $ 89,516 |
| Depreciation and amortization | 15,780 | 7,257 | 2,633 | 25,670 |
| Capital expenditures | 16,319 | 5,825 | 518 | 22,662 |
| Segment assets | 558,277 | 279,050 | (970) | 836,357 |

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

Segment financial information for 2004 is as follows:

| *In thousands* | Freight Group | Transit Group | Corporate Activities and Elimination | Total |
|---|---|---|---|---|
| Sales to external customers | $500,789 | $321,229 | — | $822,018 |
| Intersegment sales/(elimination) | 15,369 | 318 | (15,687) | — |
| Total sales | $516,158 | $321,547 | $ (15,687) | $822,018 |
| Income (loss) from operations | $ 41,234 | $ 30,813 | $ (16,642) | $ 55,405 |
| Interest expense and other | — | — | (12,548) | (12,548) |
| Income (loss) from continuing operations before income taxes | $ 41,234 | $ 30,813 | $ (29,190) | $ 42,857 |
| Depreciation and amortization | 16,533 | 6,560 | 3,019 | 26,112 |
| Capital expenditures | 13,124 | 5,539 | 599 | 19,262 |
| Segment assets | 397,617 | 197,599 | 118,180 | 713,396 |

The following geographic area data as of and for the years ended December 31, 2006, 2005 and 2004, respectively, includes net sales based on product shipment destination and long-lived assets, which consist of plant, property and equipment, net of depreciation, resident in their respective countries:

| | Net Sales | | | Long-Lived Assets | | |
|---|---|---|---|---|---|---|
| *In thousands* | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| United States | $ 717,536 | $ 665,299 | $ 544,369 | $ 103,262 | $ 100,012 | $ 98,931 |
| Canada | 114,309 | 110,957 | 82,156 | 24,035 | 29,407 | 32,061 |
| Mexico | 19,386 | 11,377 | 14,393 | 5,748 | 5,574 | 5,970 |
| United Kingdom | 98,062 | 108,019 | 80,390 | 6,527 | 6,162 | 6,628 |
| Australia | 44,329 | 42,993 | 38,644 | 4,512 | 2,926 | 2,727 |
| Germany | 7,724 | 2,854 | 700 | 15,089 | 23 | — |
| Other international | 86,274 | 92,525 | 61,366 | 19,136 | 17,497 | 4,644 |
| Total | $ 1,087,620 | $ 1,034,024 | $ 822,018 | $ 178,309 | $ 161,601 | $ 150,961 |

Export sales from the Company’s United States operations were $134.0 million, $105.6 million and $81.6 million for the years ending December 31, 2006, 2005 and 2004, respectively.

Sales by product is as follows:

| *In thousands* | 2006 | 2005 | 2004 |
|---|---|---|---|
| Brake Products | $ 393,699 | $ 367,381 | $ 282,714 |
| Freight Electronics & Specialty Products | 336,158 | 321,874 | 261,595 |
| Remanufacturing, Overhaul & Build | 218,969 | 202,517 | 121,302 |
| Transit Products | 106,317 | 111,094 | 113,005 |
| Other | 32,477 | 31,158 | 43,402 |
| Total Sales | $ 1,087,620 | $ 1,034,024 | $ 822,018 |

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## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values and related carrying values of the Company's financial instruments are as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| *In thousands* | Carry Value | Fair Value | Carry Value | Fair Value |
| Foreign exchange contracts | (1,299) | (1,299) | 1,381 | 1,381 |
| 6.875% senior notes | 150,000 | 151,500 | 150,000 | 151,500 |

The fair value of the Company's foreign exchange contracts and senior notes were based on dealer quotes and represent the estimated amount the Company would pay to the counterparty to terminate the agreements.

## 21. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION

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

Balance Sheet for December 31, 2006:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| Cash | $ 106,233 | $ (231) | $ 81,977 | $ — | $ 187,979 |
| Accounts Receivable | 541 | 105,927 | 70,877 | — | 177,345 |
| Inventory | — | 85,449 | 60,032 | — | 145,481 |
| Other Current Assets | 30,431 | 2,086 | 3,869 | — | 36,386 |
| Total Current Assets | 137,205 | 193,231 | 216,755 | — | 547,191 |
| Net Property, Plant and Equipment | 2,588 | 100,676 | 75,045 | — | 178,309 |
| Goodwill | 7,980 | 100,615 | 64,656 | — | 173,251 |
| Investment in Subsidiaries | 993,453 | 151,861 | 59,906 | (1,205,220) | — |
| Intangibles | 2,146 | 27,760 | 14,588 | — | 44,494 |
| Other Long Term Assets | 11,444 | 4,532 | 13,621 | — | 29,597 |
| Total Assets | $1,154,816 | $ 578,675 | $ 444,571 | $(1,205,220) | $ 972,842 |
| Current Liabilities | $ 5,166 | $ 166,399 | $ 72,226 | $ — | $ 243,791 |
| Intercompany | 466,466 | (493,650) | 27,184 | — | — |
| Long-Term Debt | 150,000 | — | — | — | 150,000 |
| Other Long Term Liabilities | 63,295 | 15,575 | 30,292 | — | 109,162 |
| Total Liabilities | 684,927 | (311,676) | 129,702 | — | 502,953 |
| Stockholders' Equity | 469,889 | 890,351 | 314,869 | (1,205,220) | 469,889 |
| Total Liabilities and Stockholders' Equity | $1,154,816 | $ 578,675 | $ 444,571 | $(1,205,220) | $ 972,842 |

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

Balance Sheet for December 31, 2005:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| Cash | $ 87,899 | $ (2,758) | $ 56,224 | $ — | $ 141,365 |
| Accounts Receivable | 145 | 135,281 | 71,465 | — | 206,891 |
| Inventory | — | 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 | 112,653 | 67,303 | (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 | $ 525,414 | $ 349,596 | $(961,619) | $ 836,357 |
| Current Liabilities | $ 19,287 | $ 151,084 | $ 66,200 | $ — | $ 236,571 |
| Intercompany | 320,568 | (348,912) | 28,344 | — | — |
| Long-Term Debt | 150,000 | — | — | — | 150,000 |
| Other Long Term Liabilities | 53,904 | 7,973 | 8,702 | — | 70,579 |
| Total Liabilities | 543,759 | (189,855) | 103,246 | — | 457,150 |
| Stockholders' Equity | 379,207 | 715,269 | 246,350 | (961,619) | 379,207 |
| Total Liabilities and Stockholders' Equity | $922,966 | $ 525,414 | $ 349,596 | $(961,619) | $ 836,357 |

Income Statement for the Year Ended December 31, 2006:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination[(1)] | Consolidated |
|---|---|---|---|---|---|
| Net Sales | $ — | $ 846,600 | $ 360,332 | $ (119,312) | $1,087,620 |
| Cost of Sales | 3,435 | (597,558) | (293,961) | 97,241 | (790,843) |
| Gross Profit (Loss) | 3,435 | 249,042 | 66,371 | (22,071) | 296,777 |
| Operating Expenses | (46,251) | (83,859) | (37,107) | — | (167,217) |
| Operating (Loss) Profit | (42,816) | 165,183 | 29,264 | (22,071) | 129,560 |
| Interest (Expense) Income | (16,402) | 12,377 | 2,439 | — | (1,586) |
| Other (Expense) Income | (1,695) | 7,821 | (7,543) | — | (1,417) |
| Equity Earnings | 155,103 | 5,848 | — | (160,951) | — |
| Pretax Income (Loss) | 94,190 | 191,229 | 24,160 | (183,022) | 126,557 |
| Income Tax Benefit (Expense) | (9,712) | (19,720) | (10,631) | — | (40,063) |
| Income from Continuing Operations | 84,478 | 171,509 | 13,529 | (183,022) | 86,494 |
| Discontinued Operations | 326 | (317) | (1,699) | — | (1,690) |
| Net Income (Loss) | $ 84,804 | $ 171,192 | $ 11,830 | $ (183,022) | $ 84,804 |

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Statement for the Year Ended December 31, 2005:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination[1] | Consolidated |
|---|---|---|---|---|---|
| Net Sales | $ — | $ 742,153 | $ 428,965 | $ (137,094) | $1,034,024 |
| Cost of Sales | 5,952 | (552,218) | (344,642) | 116,530 | (774,378) |
| Gross Profit (Loss) | 5,952 | 189,935 | 84,323 | (20,564) | 259,646 |
| Operating Expenses | (40,115) | (82,728) | (35,546) | — | (158,389) |
| Operating (Loss) Profit | (34,163) | 107,207 | 48,777 | (20,564) | 101,257 |
| Interest (Expense) Income | (19,670) | 9,814 | 1,170 | — | (8,686) |
| Other (Expense) Income | 3,945 | (8,048) | 1,048 | — | (3,055) |
| Equity Earnings | 108,728 | 15,404 | — | (124,132) | — |
| Pretax Income (Loss) | 58,840 | 124,377 | 50,995 | (144,696) | 89,516 |
| Income Tax Benefit (Expense) | (2,723) | (14,078) | (15,030) | — | (31,831) |
| Income from Continuing Operations | 56,117 | 110,299 | 35,965 | (144,696) | 57,685 |
| Discontinued Operations | (341) | — | (1,568) | — | (1,909) |
| Net Income (Loss) | $ 55,776 | $ 110,299 | $ 34,397 | $ (144,696) | $ 55,776 |

Income Statement for the Year Ended December 31, 2004:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination[1] | Consolidated |
|---|---|---|---|---|---|
| Net Sales | $ — | $ 622,766 | $ 330,930 | $ (131,678) | $ 822,018 |
| Cost of Sales | 2,630 | (449,426) | (286,549) | 116,491 | (616,854) |
| Gross (Loss) Profit | 2,630 | 173,340 | 44,381 | (15,187) | 205,164 |
| Operating Expenses | (41,137) | (78,709) | (29,913) | — | (149,759) |
| Operating (Loss) Profit | (38,507) | 94,631 | 14,468 | (15,187) | 55,405 |
| Interest (Expense) Income | (17,561) | 6,847 | (814) | — | (11,528) |
| Other (Expense) Income | (1,554) | 2,674 | (2,140) | — | (1,020) |
| Equity Earnings | 82,902 | 1,324 | — | (84,226) | — |
| Pretax Income (Loss) | 25,280 | 105,476 | 11,514 | (99,413) | 42,857 |
| Income Tax Benefit (Expense) | 6,816 | (11,024) | (6,553) | — | (10,761) |
| Income from Continuing Operations | 32,096 | 94,452 | 4,961 | (99,413) | 32,096 |
| Discontinued Operations | 349 | — | — | — | 349 |
| Net Income (Loss) | $ 32,445 | $ 94,452 | $ 4,961 | $ (99,413) | $ 32,445 |

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

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

Condensed Statement of Cash Flows for the Year Ended December 31, 2006:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| Net Cash Provided by (Used in) Operating Activities | $ 20,915 | $ 222,670 | $ 90,464 | $(183,022) | $ 151,027 |
| Net Cash Used in Investing Activities | (774) | (48,951) | (55,037) | — | (104,762) |
| Net Cash Provided by (Used in) Financing Activities | (1,807) | (171,192) | (11,830) | 183,022 | (1,807) |
| Effect of Changes in Currency Exchange Rates | — | — | 2,156 | — | 2,156 |
| Increase (Decrease) in Cash | 18,334 | 2,527 | 25,753 | — | 46,614 |
| Cash at Beginning of Period | 87,899 | (2,758) | 56,224 | — | 141,365 |
| Cash at End of Period | $106,233 | $ (231) | $ 81,977 | $ — | $ 187,979 |

Condensed Statement of Cash Flows for the Year Ended December 31, 2005:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| Net Cash Provided by (Used in) Operating Activities | $19,397 | $ 131,518 | $ 78,102 | $(144,696) | $ 84,321 |
| Net Cash Used in Investing Activities | (519) | (48,743) | (8,345) | — | (57,607) |
| Net Cash Provided by (Used in) Financing Activities | 27,904 | (110,382) | (34,443) | 144,696 | 27,775 |
| Effect of Changes in Currency Exchange Rates | — | — | (8,381) | — | (8,381) |
| Increase (Decrease) in Cash | 46,782 | (27,607) | 26,933 | — | 46,108 |
| Cash at Beginning of Period | 41,117 | 24,849 | 29,291 | — | 95,257 |
| Cash at End of Period | $87,899 | $ (2,758) | $ 56,224 | $ — | $ 141,365 |

Condensed Statement of Cash Flows for the Year Ended December 31, 2004:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| Net Cash Provided by (Used in) Operating Activities | $ 12,279 | $127,063 | $ 13,551 | $ (99,413) | $ 53,480 |
| Net Cash Used in Investing Activities | (600) | (10,752) | (6,456) | — | (17,808) |
| Net Cash Provided by (Used in) Financing Activities | (19,037) | (94,516) | (5,012) | 99,413 | (19,152) |
| Effect of Changes in Currency Exchange Rates | — | — | 8,409 | — | 8,409 |
| Increase in Cash | (7,358) | 21,795 | 10,492 | — | 24,929 |
| Cash at Beginning of Period | 48,475 | 3,054 | 18,799 | — | 70,328 |
| Cash at End of Period | $ 41,117 | $ 24,849 | $ 29,291 | $ — | $ 95,257 |

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 22. OTHER EXPENSE

The components of other expense are as follows:

| *In thousands* | For the year ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Foreign currency loss | $(1,127) | $(3,257) | $(1,245) |
| Other miscellaneous income (expense) | (290) | 202 | 225 |
| Total other expense | $(1,417) | $(3,055) | $(1,020) |

## 23. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

| *In thousands, except per share data* | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2006** | | | | |
| Net sales | $262,409 | $261,902 | $268,889 | $294,420 |
| Gross profit | 75,090 | 76,741 | 66,198 | 78,748 |
| Operating income | 32,320 | 35,349 | 25,475 | 36,416 |
| Income from continuing operations | 20,068 | 21,782 | 17,741 | 26,903 |
| (Loss) income from discontinued operations (net of tax) | (22) | (637) | (370) | (661) |
| Net income | 20,046 | 21,145 | 17,371 | 26,242 |
| Basic earnings from continuing operations per common share | $ 0.42 | $ 0.45 | $ 0.36 | $ 0.56 |
| Diluted earnings from continuing operations per common share | $ 0.41 | $ 0.44 | $ 0.36 | $ 0.55 |
| **2005** | | | | |
| Net sales | $241,800 | $266,297 | $255,670 | $270,257 |
| Gross profit | 57,012 | 66,175 | 66,969 | 69,490 |
| Operating income | 18,359 | 26,296 | 27,265 | 29,337 |
| Income from continuing operations before taxes | 9,343 | 14,933 | 15,496 | 17,913 |
| Income from discontinued operations (net of tax) | (95) | 218 | (420) | (1,612) |
| Net income | 9,248 | 15,151 | 15,076 | 16,301 |
| Basic earnings from continuing operations per common share | $ 0.20 | $ 0.32 | $ 0.33 | $ 0.37 |
| Diluted earnings from continuing operations per common share | $ 0.20 | $ 0.31 | $ 0.32 | $ 0.37 |

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

The fourth quarter of 2006 includes a tax benefit for the release of a valuation allowance of $5.3 million.

## SIGNATURES

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

WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION

By /S/ ALBERT J. NEUPAVER
**Albert J. Neupaver,**
**President and Chief Executive Officer**

Date: March 1, 2007

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

| | Signature and Title | Date |
|---|---|---|
| By | /S/ ALBERT J. NEUPAVER<br>**Albert J. Neupaver,**<br>**President, Chief Executive Officer and Director** | March 1, 2007 |
| By | /S/ WILLIAM E. KASSLING<br>**William E. Kassling,**<br>**Chairman of the Board and Director** | March 1, 2007 |
| By | /S/ ROBERT J. BROOKS<br>**Robert J. Brooks,**<br>**Director** | March 1, 2007 |
| By | /S/ EMILIO A. FERNANDEZ<br>**Emilio A. Fernandez,**<br>**Director** | March 1, 2007 |
| By | /S/ LEE B. FOSTER<br>**Lee B. Foster,**<br>**Director** | March 1, 2007 |
| By | /S/ MICHAEL W. D. HOWELL<br>**Michael W. D. Howell,**<br>**Director** | March 1, 2007 |
| By | /S/ JAMES V. NAPIER<br>**James V. Napier,**<br>**Director** | March 1, 2007 |
| By | /S/ NICKOLAS W. VANDE STEEG<br>**Nickolas W. Vande Steeg,**<br>**Director** | March 1, 2007 |
| By | /S/ GARY C. VALADE<br>**Gary C. Valade,**<br>**Director** | March 1, 2007 |

SCHEDULE II

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**VALUATION AND QUALIFYING ACCOUNTS**
**For each of the three years ended December 31**

| *In thousands* | Balance at beginning of period | Charged/ (credited) to expense | Charged to other accounts (1) | Deductions from reserves (2) | Balance at end of period |
|---|---|---|---|---|---|
| **2006** | | | | | |
| Warranty and overhaul reserves | $ 16,158 | $ 10,865 | $ — | $ 9,624 | $17,399 |
| Allowance for doubtful accounts | 4,070 | 2,247 | — | 2,702 | 3,615 |
| Valuation allowance-taxes | 15,096 | (5,276) | (3,999) | — | 5,821 |
| Inventory reserves | 15,687 | 9,655 | — | 6,808 | 18,534 |
| Merger and restructuring reserve | 1,036 | 3,595 | — | 2,819 | 1,812 |
| **2005** | | | | | |
| Warranty and overhaul reserves | $ 17,413 | $ 7,801 | $ — | $ 9,056 | $16,158 |
| Allowance for doubtful accounts | 1,996 | 2,908 | — | 834 | 4,070 |
| Valuation allowance-taxes | 14,449 | 647 | — | — | 15,096 |
| Inventory reserves | 14,864 | 5,498 | — | 4,675 | 15,687 |
| Merger and restructuring reserve | — | 1,863 | — | 827 | 1,036 |
| **2004** | | | | | |
| Warranty and overhaul reserves | $ 13,307 | $ 14,914 | $ — | $ 10,808 | $17,413 |
| Allowance for doubtful accounts | 4,452 | 2,160 | — | 4,616 | 1,996 |
| Valuation allowance-taxes | 18,487 | — | (4,038) | — | 14,449 |
| Inventory reserves | 16,403 | 3,451 | — | 4,990 | 14,864 |
| Merger and restructuring reserve | 86 | — | — | 86 | — |

(1) Reserves of acquired/(sold) companies and valuation allowances for state and foreign deferred tax assets
(2) Actual disbursements and/or charges

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## EXHIBITS

| Exhibits | | Filing Method |
|---|---|---|
| 2.1 | Amended and Restated Agreement and Plan of Merger, as amended (originally included as Annex A to the Joint Proxy Statement/Prospectus) | 5 |
| 3.1 | Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995 | 2 |
| 3.2 | Amended and Restated By-Laws of the Company, effective January 5, 2006 | 12 |
| 4.1(a) | Indenture with the Bank of New York as Trustee dated as of August 6, 2003 | 9 |
| 4.1(b) | Resolutions Adopted July 23, 2003 by the Board of Directors establishing the terms of the offering of up to $150,000,000 aggregate principal amount of 6.875% Notes due 2013 | 9 |
| 4.2 | Purchase Agreement, dated July 23, 2003, by and between the Company and the initial purchasers | 9 |
| 4.3 | Exchange and Registration Rights Agreement, dated August 6, 2003 | 9 |
| 10.1 | MotivePower Stock Option Agreement (originally included as Annex B to the Joint Proxy Statement/Prospectus) | 5 |
| 10.2 | Westinghouse Air Brake Stock Option Agreement (originally included as Annex C to the Joint Proxy Statement/Prospectus) | 5 |
| 10.3 | Voting Agreement dated as of September 26, 1999 among William E. Kassling, Robert J. Brooks, Harvard Private Capital Holdings, Inc. Vestar Equity Partners, L.P. and MotivePower Industries, Inc. (originally included as Annex D to the Joint Proxy Statement/Prospectus) | 5 |
| 10.4 | Indemnification Agreement dated January 31, 1995 between the Company and the Voting Trust Trustees | 2 |
| 10.5 | Agreement of Sale and Purchase of the North American Operations of the Railway Products Group, an operating division of American Standard Inc., dated as of 1990 between Rail Acquisition Corp. and American Standard Inc. (only provisions on indemnification are reproduced) | 2 |
| 10.6 | Letter Agreement (undated) between the Company and American Standard Inc. on environmental costs and sharing | 2 |
| 10.7 | Purchase Agreement dated as of June 17, 1992 among the Company, Schuller International, Inc., Manville Corporation and European Overseas Corporation (only provisions on indemnification are reproduced) | 2 |
| 10.8 | Asset Purchase Agreement dated as of January 23, 1995 among the Company, Pulse Acquisition Corporation, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc. and the Pulse Shareholders (Schedules and Exhibits omitted) | 2 |
| 10.9 | License Agreement dated as of December 31, 1993 between SAB WABCO Holdings B.V. and the Company | 2 |
| 10.10 | Letter Agreement dated as of January 19, 1995 between the Company and Vestar Capital Partners, Inc. | 2 |
| 10.11 | Westinghouse Air Brake Company 1995 Stock Incentive Plan, as amended | 4 |
| 10.12 | Westinghouse Air Brake Company 1995 Non-Employee Directors’ Fee and Stock Option Plan, as amended | 14 |
| 10.13 | Letter Agreement dated as of January 1, 1995 between the Company and Vestar Capital Partners, Inc. | 2 |
| 10.14 | Form of Indemnification Agreement between the Company and Authorized Representatives | 2 |

| Exhibits | | Filing Method |
|---|---|---|
| 10.15 | Common Stock Registration Rights Agreement dated as of March 5, 1997 among the Company, Harvard, AIP and the Voting Trust | 3 |
| 10.16 | 1998 Employee Stock Purchase Plan | 4 |
| 10.17 | Westinghouse Air Brake Technologies Corporation 2000 Stock Incentive Plan, as amended. | 14 |
| 10.18 | Asset Purchase Agreement, by and between General Electric Company, through its GE Transportation Systems business and Westinghouse Air Brake Technologies Corporation, dated as of July 24, 2001 | 8 |
| 10.19 | Refinancing Credit Agreement by and among the Company, the Guarantors, various lenders, LaSalle Bank National Association, JP Morgan Chase Bank, The Bank of New York, Citizens Bank of Pennsylvania, National City Bank of Pennsylvania, The Bank of Nova Scotia, Bank of Tokyo-Mitsubishi Trust Company and PNC Bank, National Association dated January 12, 2004 | 10 |
| 10.20 | Sale and Purchase Agreement, by and between Rütgers Rail S.p.A. and the Company, dated August 12, 2004. | 11 |
| 10.21 | Amendment Agreement dated January 28, 2005 by and among Rütgers Rail S.p.A., the Company, CoFren S.r.l. and RFPC Holding Company to the Sale and Purchase Agreement dated August 12, 2004. | 11 |
| 10.22 | Employment Agreement with Albert J. Neupaver, dated February 1, 2006. | 13 |
| 10.23 | Restricted Stock Agreement with Albert J. Neupaver, dated February 1, 2006. | 13 |
| 10.24 | Stock Purchase Agreement, by and among Wabtec Holding Company, certain shareholders of Schaefer Manufacturing, Inc. and CCP Limited Partnership, dated October 6, 2006. | 15 |
| 10.25 | Share Purchase Agreement, by and between BBA Holding Deutschland GmbH and Westinghouse Air Brake Technologies Corporation, dated November 27, 2006 (Exhibits and Schedules omitted, but will be provided to the Commission upon request). | 1 |
| 21 | List of subsidiaries of the Company | 1 |
| 23.1 | Consent of Ernst & Young LLP | 1 |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certifications | 1 |
| 32.1 | Section 1350 Certifications | 1 |
| 99.1 | Annual Report on Form 11-K for the year ended December 31, 2005 of the Westinghouse Air Brake Technologies Corporation Savings Plan | 1 |

1 Filed herewith.
2 Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866).
3 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1997.
4 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1998.
5 Filed as part of the Company's Registration Statement on Form S-4 (No. 333-88903).
6 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1999.
7 Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2000.
8 Filed as an exhibit to the Company's Current Report on Form 8-K, dated November 13, 2001.
9 Filed as an exhibit to the Company's Registration Statement on Form S-4 (No. 333-110600).
10 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 2003.
11 Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 2004.
12 Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated January 5, 2006.
13 Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2006.
14 Filed as an Annex to the Company's Schedule 14A Proxy Statement filed on April 13, 2006.
15 Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006.

**Exhibit 10.25**

Dated November 27, 2006

**BBA Holding Deutschland GmbH**

and

**Westinghouse Air Brake Technologies Corporation**

**SHARE PURCHASE AGREEMENT**

relating to BECORIT GmbH

Linklaters

Mainzer Landstraße 16
60325 Frankfurt am Main
Postfach 17 01 11
60075 Frankfurt am Main

Telephone (49-69) 71003-0
Facsimile (49-69) 71003-333

Ref

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**Share Purchase Agreement**

**between:**

**(1)** BBA Holding Deutschland GmbH, a company incorporated in Germany whose registered office is at Rathenaustr. 12, 30175 Hannover (the "**Seller**"); and

**(2)** Westinghouse Air Brake Technologies Corporation, a Delaware corporation, whose principal office is at 1001 Air Brake Avenue, Wilmerding, Pennsylvania, USA, 15148 (the "**Purchaser**").

**Whereas:**

(A) BECORIT GmbH (the "**Company**") is a limited liability company incorporated under German law. The Company is registered in the commercial register at the local court of Recklinghausen under HRB 4250.

(*B*) The Seller is the sole legal and economic owner of all of the shares of the Company, which include a registered share capital of seven shares of nominal DEM 19,000, DEM 1,000, DEM 30,000, DEM 771,900, DEM 778,100 (the two latter shares resulting from the split of the former share of nominal DEM 1,550,000), DEM 1,500,000, DEM 400,000, DEM 2,500,000 (collectively, the "**Shares**").

(C) The Company is active in the production of friction products on its premises in Recklinghausen, and in the distribution of such products. The Company's product portfolio comprises both organic and sintered brake pads and organic brake blocks which are used on high speed, passenger, freight locomotives and other railway vehicles. Furthermore, the Company develops and manufactures special friction materials for the mining industry, cable railways, wind power turbines and other industrial applications (the "**Business**").

(D) The Seller wishes to sell the Shares and the Purchaser wishes to purchase the Shares.

**It is agreed as follows:**

**1 Interpretation**

In this Agreement including the Preamble, unless the context otherwise requires, the provisions in this Clause 1 apply:

**1.1 Definitions**

Defined terms shall have the meaning ascribed or referenced to them in Schedule 1.1.

**1.2 Schedules etc.**

References to this Agreement shall include any Schedules and Exhibits to it and references to Clauses and Schedules are to Clauses of, and Schedules to, this Agreement. References to Paragraphs and Parts are to Paragraphs and Parts of the Schedules. References to this Agreement shall also include any agreements entered into or to be entered into pursuant to this Agreement.

**1.3 Headings**

The headings in this Agreement shall not affect its interpretation.

**1.4 German Terms**

Where a German term has been added in parenthesis after an English term, only such German term shall be decisive for the interpretation of the relevant English term whenever such English term is used in this Agreement.

**1.5 Interpretation**

All terms used in this Agreement will be construed to be of such gender or number as the circumstances require. The word "including" shall not limit the preceding words or terms.

**2 Sale and Assignment of the Shares**

**2.1 Sale of the Shares**

**2.1.1** Subject to the terms of this Agreement, the Seller hereby sells the Shares to Purchaser free and clear of any pledge, collateral, security interest, special restriction or any other form of security or promise or encumbrances, and the Purchaser accepts such sale.

**2.1.2** The Parties acknowledge that the transfer includes all ancillary rights out of the Shares other than as described in the following sentence. Subject to the terms of this Agreement, the Purchaser acknowledges that pursuant to the Profit Transfer Agreement between the Company and the Seller, all profits or losses of the Company for the short business year ended 30 November, 2006 will be transferred to the Seller.

**2.2 Assignment of the Shares**

**2.2.1** The Seller hereby assigns (*abtreten*) the Shares to the Purchaser and the Purchaser accepts such assignment.

**2.2.2** The assignment pursuant to Clause 2.2.1 shall become effective upon the Closing Date or, if that is later, upon receipt of the Preliminary Purchase Price on the Seller's bank account specified in accordance with Clause 13.1.2.

**3 Purchase Price**

**3.1 Purchase Price**

The consideration for the Shares (the "**Purchase Price**") shall be an amount equal to:

**3.1.1** EUR 42,500,000 (the "**Enterprise Value**"),

**3.1.2** plus the Cash,

**3.1.3** less the Financial Debt,

**3.1.4** plus the Working Capital Adjustment,

**3.1.5** less the Agreed Pension Deductible.

**3.2 Purchase Price Estimates**

Prior to the date hereof, Seller has provided to Purchaser preliminary versions of the Cash Statement and the Financial Debt Statement of the Company using estimated amounts as of November 30, 2006 for the relevant items to be reflected in such statements. Seller has calculated such amounts in good faith and provided to Purchaser a summary of the relevant information underlying the estimates together with such supporting information as requested by Purchaser, (the amounts reflected as Cash and Financial Debt, respectively, in such preliminary statements being the "**Estimated Cash**" and the "**Estimated Financial Debt**").

**3.3 Due Date for Payment**

The Purchase Price shall be due for payment (*fällig*) as follows:

**3.3.1** An amount equal to

(i) the Enterprise Value,

(ii) plus the Estimated Cash,

(iii) less the Estimated Financial Debt,

(iv) less the Agreed Pension Deductible.

(the "**Preliminary Purchase Price**") shall be paid by the Purchaser and received on the bank account of the Seller specified in accordance with Clause 13.1.2 on the Closing Date after the delivery of the documents referenced in Clause 4.2.

**3.3.2** The difference between the Purchase Price and the Preliminary Purchase Price shall be paid by the Purchaser to the Seller or by the Seller to the Purchaser, as the case may be, within five Business Days after the Closing Statements have become final and binding in accordance with Clause 6.5.

**3.4 Value Added Tax**

If and to the extent the transactions contemplated in this Agreement are subject to VAT, the Purchaser shall pay such VAT in addition to the Purchase Price. The Seller shall not opt for VAT in respect of the sale of the Shares.

**3.5 Adjustment of the Purchase Price**

If any payment is made by the Seller to the Purchaser or by the Purchaser to the Seller in respect of any claim for any breach of a Seller's Guarantee or a Purchaser's Guarantee or pursuant to an indemnity obligation or otherwise under this Agreement, the payment shall be made by way of adjustment of the Purchase Price paid by the Purchaser for the Shares under this Agreement and the Purchase Price shall be deemed to have been reduced or increased, as the case may be, by the amount of such payment.

**3.6 No Netting against Purchase Price**

**3.6.1** The Purchaser shall not be entitled to (i) set off any rights and claims it may have against the Seller's claim for payment of the Preliminary Purchase Price or any claims the Seller may have under Clause 3.3.2, or (ii) refuse to perform its obligation to pay the Preliminary Purchase Price or any obligation it may have under Clause 3.3.2 on the grounds that it has a right of retention (*Zurückbehaltungsrecht*) unless the rights or claims of the Purchaser have been acknowledged in writing by the Seller or have been confirmed by final decision of a competent court (*Gericht*) or arbitration panel (*Schiedsgericht*) pursuant to Clause 13.6.

**3.6.2** The Seller shall not be entitled to (i) set off any rights and claims it may have against any claims the Purchaser may have under Clause 3.3.2, or (ii) refuse to perform any obligation it may have under Clause 3.3.2 on the grounds that it has a right of retention (*Zurückbehaltungsrecht*) unless the rights or claims of the Seller have been acknowledged in writing by the Purchaser or have been confirmed by final decision of a competent court (*Gericht*) or arbitration panel (*Schiedsgericht*) pursuant to Clause 13.6.

**4 Conditions to Closing**

**4.1 Merger Control Matters**

**4.1.1** The Seller guarantees to the Purchaser that the turnover in Germany of the Company for each of the fiscal year ended December 31, 2005 and the short fiscal year ending November 30, 2006 does not reach the threshold pursuant to sec. 35 para.1 no.2 of the German Act against Constraints of Competition.

**4.1.2** The Purchaser guarantees to the Seller that the combined turnover in Germany of the Purchaser and all entities affiliated with the Purchaser for the fiscal year ended December 31, 2005 does not reach the threshold pursuant to sec. 35 para.1 no.2 of the German Act against Constraints of Competition.

**4.1.3** Relying on the guarantee from the respective other Party pursuant to Clause 4.1.1 and 4.1.2 above, each Party acknowledges that notice of the sale and transfer of the Shares under this Agreement does not have to be filed with the Federal Cartel Office pursuant to the German Act against Constraints of Competition.

**4.2 Closing Deliveries**

Purchaser’s obligations to pay the Preliminary Purchase Price in exchange for the transfer of the Shares under Clause 2.1 and the assignment under Clause 2.2 is subject to the satisfaction of each of the following conditions precedent (*aufschiebende Bedingungen*) (the “**Closing Conditions**”):

**4.2.1** The transactions relating to the Profit Transfer Agreement contemplated under Clause 5.1.1 shall have been completed.

**4.2.2** The Permitted Transactions pursuant Clause 5.2.1 to 5.2.2shall have been completed.

**4.2.3** The Seller shall have caused the Company to have completed the transactions relating to the UK plans as further described in Clause 5.3.

**4.2.4** The Seller’s shareholders meeting shall have approved the sale of the Shares, resolution pursuant to Section 179a German Stock Corporation Act/AktG.

**4.2.5** The Seller shall procure that the Company sends a letter to Dr. Y Badakhsanian stating that the Company fully and finally ceases the business relationship with immediate effect and that the Agency Agreement dated July 1, 2005 between the Company and Dr. Y Badakhsanian be terminated effective immediately prior to the Closing Date provided that all cost and consequences whatsoever relating to the termination shall be borne by Purchaser. Seller shall procure that the Company sends a letter to the other parties of the Mix Technology Agreement between the Company, Pars Lent Industrial & Manufacturing Company dated August 16, 2006 with the aim to terminate such agreement with effect immediately prior to the Closing Date provided that all cost and consequences whatsoever shall be borne by Purchaser.

**4.2.6** Seller shall procure that BBA Aviation plc executes and delivers a guaranty in favour of Purchaser in the form attached as Exhibit A pursuant to which BBA Aviation plc agrees to guarantee the Seller's obligations under this Agreement.

**4.2.7** Precautionary ratification (*höchst vorsorgliche Genehmigung*) by BBA Overseas Holdings Ltd. of the declarations made by Mr. Rolf Weißenfeld on behalf and in the former's name on April 28, 1995 with regard to the subscription of a new share of nominal DEM 2.5 million in the Company by BBA Overseas Holdings Ltd., the creation of such share having been resolved as part of the share capital increase resolved on April 28, 1995 and confirmation by BBA Overseas Holding Ltd. that such declarations were covered by the relevant power of attorney dated April 20, 1995.

**4.2.8** Precautionary ratification (*höchst vorsorgliche Genehmigung*) by BBA Overseas Holdings Ltd. of the declarations made by Mr. Georg Renner on November 5, 1997 in the name and on behalf of BBA Overseas Holdings Ltd. as to the transfer and assignment by way of contribution in kind by BBA Overseas Holdings Ltd. to the Seller of two shares in the Company with nominal amounts of DEM 2.5 million and DEM 778,100, and as to the transfer and assignment by way of sale to the Seller of the remaining shares in the Company with the nominal amounts of DEM 19,000, DEM 1,000, DEM 30,000, DEM 771,900, DEM 1,500,000 and DEM 400,000 (deeds no. Z 835/1997 and Z 836/1997 of the notary public Roger Zätzsch, in Frankfurt/Main) and confirmation by BBA Overseas Holding Ltd. that such declarations were covered by the relevant power of attorney dated September 19, 1997.

**4.2.9** Precautionary ratification (*höchst vorsorgliche Genehmigung*) the declarations made by Mr. Thomas Arntz on November 5, 1997 in the name and on behalf of Seller as to the transfer and assignment by way of contribution in kind by BBA Overseas Holdings Ltd. to the Seller of two shares in the Company with nominal amounts of DEM 2.5 million and DEM 778,100, and as to the transfer and assignment by way of sale to the Seller of the remaining shares in the Company with the nominal amounts of DEM 19,000, DEM 1,000, DEM 30,000, DEM 771,900, DEM 1,500,000 and DEM 400,000 (deeds no. Z 835/1997 and Z 836/1997 of the notary public Roger Zätzsch, in Frankfurt/Main) and confirmation by the Seller that such declarations were covered by the relevant power of attorney dated November 5, 1997.

**4.3 MAC Clause**

During the period from the date of this Agreement through to the Closing Date, no material adverse change shall have occurred in the condition, financial or otherwise, or in the operations of the Company excluding, in any such case, any event, circumstance or change resulting from:

**4.3.1** changes in stock markets, interest rates, exchange rates, commodity prices or other general economic conditions; or

**4.3.2** changes in conditions generally affecting the industry in which the Company operates; or

**4.3.3** changes in laws, regulations or accounting practices; or

**4.3.4** matters previously disclosed to the Purchaser; or

**4.3.5** this transaction or the change in control resulting from this transaction.

## 5 Period until the Closing Date

### 5.1 Change of Business Year and Termination of Profit Transfer Agreement

**5.1.1** The Seller shall procure that the Profit Transfer Agreement will be terminated with effect as of 30 November 2006.

**5.1.2** On 24 November 2006, the Company has made a preliminary payment of EUR 2,500,000 to the Seller on the expected profit transfer claim under the Profit Transfer Agreement for the short fiscal year ending on 30 November 2006.

**5.1.3** The Seller shall forward to the Purchaser any payments under the Profit Transfer Agreement made by the Company to Seller after the Closing Date within ten Business Days upon receipt thereof. The Purchaser shall pay to the Seller an amount corresponding to any payments received by the Company from the Seller under the Profit Transfer Agreement after the Closing Date within ten Business Days upon receipt thereof by the Company.

### 5.2 Permitted Transactions

The Seller shall procure that the following actions (the **"Permitted Transactions"**) will be taken prior to the Closing Date:

**5.2.1** the withdrawal from the capital reserves of the Company in the amount of approximately EUR 56.981.723,08 by way of assignment by the Company to the Seller of (i) the repayment claim (plus accrued interest) under an inter-company loan agreement made to the Seller on 13 October 2006 (amounting to EUR 7,247,207 plus accrued interest, ie 7,289,774.93) and (ii) the repayment claim under an inter-company loan made to the Seller in a total amount of EUR 49,691,948.15 (incl accrued interest);

**5.2.2** termination of the cash pool agreement between the Company, the Seller and Deutsche Bank and of all intra-group agreements, all of which are listed in Schedule 5.2.2.

The Seller shall ensure that all applicable withholding Tax payments on any distributions made under Clause 5.2 have been calculated and properly declared with and paid to the applicable Tax authorities prior to the Closing Date. For the avoidance of doubt, nothing in this Agreement shall restrict the settlement of any payment in accordance with this Clause 5.2 by way of set-off or netting arrangements. Should any of the transactions pursuant to Clauses 5.1 and 5.2 prove not to be in compliance with applicable law, in particular not in line with Section 30, 31 GmbHG, the Seller undertakes to hold the Company and the Purchaser free, and indemnify the Company and the Purchaser against any losses or liability incurred in the context of such transaction.

**5.3 UK Pension and Employee Matters**

**5.3.1** Prior to the Closing Date, the Seller shall procure that the Company terminates its UK pension plan for all employees of the Company prior to Closing Date with effect as of 31 December 2006 in full compliance with all applicable laws including any obligation to consult with the employees concerned. The Purchaser undertakes with the Seller that all relevant employees who are currently members of this scheme shall be invited to become members of an alternative stakeholder pension scheme in the UK with effect on and from 31 December 2006. The Seller shall indemnify the Company and the Purchaser against: (i) any debt which may be treated as due from the Company to the trustees of the UK pension plan under section 75 of the Pensions Act 1995; and (ii) against any contribution notice or financial support direction that may be issued pursuant to the Pensions Act 2004 in relation to the UK pension plan.

**5.3.2** The Parties acknowledge that the salaries of two employees of the Company are currently paid in GBP currency through a GBP account of an affiliate of the Seller. The Purchaser is aware that the Seller's affiliate will not continue to make such payments after the Closing Date and undertakes with the Seller that it will procure that these employees continue to be paid in GBP currency in the UK with immediate effect from Closing.

**5.4 Access**

Between the date of this Agreement and Closing Date Seller shall procure that the Company affords Purchaser and its employees access upon reasonable notice to the Company's management and the Company shall furnish any information regarding the Company or the Business as the Purchaser may reasonably request.

**6 Closing Statements**

**6.1 Form and Content**

The Purchase Price shall be determined on the basis of the Cash Statement, the Financial Debt Statement and the Working Capital Statement (collectively the "**Closing Statements**") which shall be prepared in accordance with this Clause 6.

**6.2 Accounting Policies**

**6.2.1** The Closing Statements shall be prepared in accordance with

(i) the policies, procedures and practices set forth in this Clause 6.2 and in Schedule 6.2;

(ii) to the extent not inconsistent with (i), the accounting policies, procedures and practices adopted in the audited annual accounts of the Company as of 31 December 2005, applied consistently with past practice and in accordance with German GAAP; and

(iii) to the extent not inconsistent with (i) and (ii), German GAAP.

**6.2.2** The Closing Statements shall be prepared on a going-concern basis disregarding the transactions contemplated in this Agreement.

**6.3 Preparation of the Closing Statements**

**6.3.1** The Purchaser shall prepare a draft of the Closing Statements (the "**Draft Closing Statements**") and deliver such draft to Seller as promptly as practicable but no later than 45 Business Days after the Closing Date.

**6.3.2** Within 20 Business Days after receipt of the Draft Closing Statements ("**Dispute Period**"), the Seller may raise in reasonable detail any objections against specified items of the Draft Closing Statements which may have an impact on the Closing Statements, indicating the higher or lower value which in the Seller's opinion should be allocated to each item in dispute and to which extent such higher or lower value affects the Purchase Price (the "**Dispute Report**"). The Seller shall be deemed to have agreed with all items and amounts contained in Draft Closing Statements which are not raised in the Dispute Report. Any item objected to by the Seller in accordance with the preceding sentences shall hereinafter be referred to as "**Disputed Item**".

**6.3.3** The Parties shall use their best efforts to resolve the Disputed Items within 15 Business Days following the receipt by Purchaser of the Dispute Report. Any Disputed Items not resolved within such period shall be submitted by the Parties to an expert arbitrator (*Schiedsgutachter*, the "**Expert**"). The Parties agree that PwC, Frankfurt am Main, should be appointed as Expert. Should PwC become unavailable, the Parties shall agree on another accounting firm of international standing to be appointed as Expert. If they cannot reach such agreement within further 15 Business Days from the expiration of the period set out in the first sentence of this Clause 6.3.3, either Party shall have the right to request that an accounting firm of international standing determined by the Institut der Wirtschaftsprüfer e.V. Düsseldorf, Germany, shall be appointed as Expert.

**6.3.4** The Expert shall determine the Disputed Items and the Purchase Price by way of a binding expert opinion pursuant to sec. 317 para.1 BGB. In rendering its decision, the Expert shall, with respect to each Disputed Item, shall stay within the range of the values allocated to it by the Parties. The Seller and the Purchaser shall co-operate with the Expert and comply with their reasonable requests made in connection with the carrying out of their duties under this Agreement. The Expert shall deliver to Seller and Purchaser as promptly as practicable its determination of the Disputed Items stating the reasons of its decision. The reasons shall specifically address the controversial arguments brought forward by the Parties. Such determination of the accounting firm shall be final and binding upon the Parties absent manifest mathematical errors; sec. 319 BGB shall apply; however, the Parties shall comply with the Expert's determination so long as no deviating court decision is rendered.

**6.3.5** The Expert shall decide on the allocation of its fees between the Parties in accordance with the principles set out in sec. 91 et seq. German Civil Process Code (*Zivilprozessordnung*).

**6.4 Co operation**

The Seller and the Purchaser shall co-operate with each other and, if applicable, with the Expert, as the case may be, with regard to the preparation, review, agreement or determination of the Closing Statements, subject to reasonable notice, make available free of charge during normal office hours to the other Party and its representatives and accountants and to the Expert all books and records as the other Party or the Expert may reasonably require. The Purchaser shall procure that the Company co-operates with the Seller and the Expert as set out in the preceding sentence, in particular, that the Company assists the Seller in the review of the Draft Closing Statements as is required to assess and comment the Draft Closing Statements to the Purchaser within the period set out in Clause 6.3.2.

**6.5 Finalisation**

The Draft Closing Statements shall become final and binding between the Parties for the purpose of determining the Purchase Price and shall be the Closing Statements,

**6.5.1** if no Dispute Report is issued: upon the expiration of the Dispute Period or upon earlier confirmation of the Seller of its agreement with the Draft Closing Statements as submitted by the Seller;

**6.5.2** if a Dispute Report is issued but the Parties have resolved all Disputed Items without involving an Expert: upon such resolution in the form as amended by such resolution;

**6.5.3** if an Expert has been involved: upon determination of all items in dispute by such Expert in the form of such determination.

**7 Seller's Guarantees**

The Seller guarantees by way of an independent promise of guarantee (*selbständiges Garantieversprechen*) pursuant to § 311 BGB and exclusively with the remedies pursuant to Clause 9, that the statements set forth in this Clause 7 are true and correct as of the date of this Agreement and as of the Closing Date.

**7.1 Seller's Capacity**

The Seller is a duly existing company with limited liability and is entitled to enter into this Agreement and to perform all of the transactions contemplated by this Agreement. This Agreement constitutes the legal, valid and binding obligations of Seller and is enforceable against Seller in accordance with its terms. Except as set forth on Schedule 7.1, the execution, delivery and performance of this Agreement will not (with notice or lapse of time or both) violate, conflict with or result in a breach of (a) the organizational documents of the Company or (b) any law applicable to the Company or its Business. Except as set forth on Schedule 7.1, none of the Seller or the Company is required to give any notice to, make any filing with or obtain any authorization, consent or approval from any third party or governmental authority to enter into this Agreement or perform the transactions contemplated by this Agreement.

**7.2 Legal Situation of the Company**

**7.2.1** The statements in Recital (A) are correct. The extract from the commercial register as attached as Schedule 7.2.1 A is complete and correct and there are no events subject to registration not registered yet. The articles of association attached as Schedule 7.2.1 B are the actual binding version. The Company does not hold any interests, stakes, shares or similar participations in any third parties.

**7.2.2** No insolvency or similar proceedings have been opened or applied for by the Company or, to the Seller's Knowledge, by any third party in respect of the Company and the Company is not over-indebted (*überschuldet*) nor unable to pay its due debts (*zahlungsunfähig*).

**7.2.3** Except for the Profit Transfer Agreement which is to take an end as of 30 November 2006, there are no contracts under company law including affiliation agreements (*Unternehmensvertrag*) mutatis mutandis sec. 291, 292 AktG between the Company and third parties including the Seller. The Company has not issued comfort letters in the favour of any third party including the Seller.

**7.2.4** The Company has not granted any guarantees for third parties nor has it granted securities of any other kind in the favour of third parties.

**7.3 Legal Situation of the Shares**

**7.3.1** The statements in Recital (B) in relation to the ownership of the Shares are correct and the Seller is not subject to any restrictions in respect of the sale or transfer of the Shares.

**7.3.2** The Shares are free of third party rights and no third party has a claim for granting of such rights or the transfer of the Shares.

**7.3.3** The Shares are fully paid up and free of additional payment obligations (*Nachschusspflicht*).

**7.3.4** The Company has not issued any pre-emption rights or options on the purchase of shares nor has it assigned, excluded or promised a purchase right for the purchase of the Shares *(Bezugsrecht)* or for the entitlement to profit *(Gewinnbezugsrecht)*.

**7.3.5** The Company has not made any payment or has rendered any other benefit having a monetary value *(geldwerter Vorteil)* to the Seller or its affiliated companies (including for the avoidance of doubt as a result of the execution of the Permitted Transactions), which is necessary for the preservation of the registered capital pursuant to sec. 30 para 1 GmbHG.

**7.4 Annual Accounts**

**7.4.1** The Seller has delivered to the Purchaser the audited annual accounts of the Company including the audit reports for the financial year ending on 31 December 2005 (the "**Annual Accounts**").

**7.4.2** The Annual Accounts present a true and fair view of the financial condition and results of operations in accordance with German GAAP and present a true and fair view of the assets position (*Finanz- und Vermögenslage*) and the profitability *(Ertragslage)* of the Company in accordance with German GAAP. The Annual Accounts have been set up with the diligence of a prudent business man (*Sorgfalt eines ordentlichen Kaufmanns*) in accordance with German GAAP and the German Commercial Code.

**7.4.3** The Seller has delivered to the Purchaser the unaudited accounts of the management of the Company for the nine-month-period ending September 30, 2006 (the "**Management Interim Accounts**"). The Management Interim Accounts have been prepared consistent in all material respects with the principles and procedures in accordance with the Company's past and present practices.

**7.4.4** Since the date of the Annual Accounts, the Business has been conducted in all material respects only in the ordinary course of business consistent with past practice. Since the date of the Management Interim Accounts, no event has occurred or circumstance exists that has resulted in a Material Adverse Effect.

**7.5 Assets**

**7.5.1** The Company has ownership of or a right to use all of its material tangible and intangible assets, which serve its business, with the exception of assets specified in Schedule 7.5 (together or individually "**Assets**"). The Assets owned by the Company are free and clear of any third party charge, claim or encumbrance subject to customary retention of title or similar rights granted in the ordinary course of business.

**7.5.2** The material tangible Assets which serve the Company's business are functioning (subject to normal wear and tear) and are the only tangible assets necessary to carry on the Business.

**7.6 Real Estate**

**7.6.1** Schedule 7.6 contains a complete and correct list of all real estate owned by the Company ("**Real Estate**"). The Company has full and unrestricted ownership and possession of the Real Estate except for those restrictions which are shown in the excerpts of the land register attached as Schedule 7.6 or any statutory pre-emption rights or similar restrictions, which are described on Schedule 7.6. There are no pending applications for registration with the land register. Except as disclosed under Schedule 7.6, the Real Estate is free and clear of any mortgage, pledge, lien, encumbrances, easements, pre-emption rights and other registerable third parties' rights.

**7.6.2** The Company currently holds all necessary building permits for the existing buildings, and the buildings on the Real Estate were built and are currently maintained in all material respects, in compliance with any such building permits. As of the date hereof, the Company has not been notified that any such building permits have been challenged and/or that any procedure has been commenced with the purpose to repeal any building permit.

**7.6.3** Since the acquisition of the Company's Business by the Seller in 1997 the Company has not waived any rights that it may have with respect to mining activities conducted near or under the Real Estate.

**7.7 Intellectual Property Rights and Proprietary Information**

**7.7.1** Schedule 7.7.1 lists all patents, patent applications, trademarks, trademark applications, trade names and trade name applications owned by the Company, and Schedule 7.7.1 lists each license agreement relating to any IP Right that is owned by a third party and licensed to Seller (the "**IP Rights**"). The IP Rights are in full force and effect and constitute all of the IP Rights necessary to conduct the Business as it is currently being conducted. Each license agreement listed on Schedule 7.7.1 is in full force and effect, and the Company is not in default of any material provision of any such license agreement. To Seller's knowledge, no person or entity is interfering with or infringing any of the IP Rights owned by the Company nor has any person or entity misappropriated any IP Rights owned by the Company. The Company has implemented reasonable systems and precautions to protect its know-how and proprietary information.

**7.7.2** Except as disclosed in Schedule 7.7.2, none of the IP Rights owned by the Company infringes upon, is in misappropriation of or otherwise conflicts with any patent, patent application, trademark, trademark application, copyright, trade secret or other intellectual property right of any third party, other than infringements, misappropriations or other conflicts which would not have a material adverse effect on the business or operations of the Company. Except as disclosed in Schedule 7.7.2 and to the Seller's knowledge, none of the IP Rights licensed by the Company infringes upon, is in misappropriation of or otherwise conflicts with any patent, patent application, trademark, trademark application, copyright, trade secret or other intellectual property right of any third party.

**7.8 Permits**

Provided that environmental issues shall be exclusively governed by Clause 7.11, the Company has all material regulatory permits and concessions necessary for the operation of its current Business. Except as set forth in Schedule 7.8, the Company has all material homologations contractually required by its customers from the Company and which are necessary for the sale and distribution of the Company's products as of the date hereof for the products currently sold by the Company to such customers, in particular Deutsche Bahn AG. All such permits and homologations are in full force and effect.

**7.9 Employees**

**7.9.1** Schedule 7.9.1 contains a true and correct list of all employees, managing directors and executives of the Company ("**Employees**"), their salary, period of notice, additional benefits, special dismissal protection and date of entry into the Company, weekly working hours and indication of the respective department for which each of the listed employees is working as of the date of this Agreement.

**7.9.2** Schedule 7.9.2 contains a complete and correct list of all memberships of the Company in employers' associations, which enter into collective bargaining agreements.

**7.9.3** Schedule 7.9.3 contains to the Seller's Knowledge a complete and correct list of all applicable collective bargaining agreements (*Tarifverträge*) and company bargaining agreements (*Firmentarifverträge*) and all applicable shop agreements and other agreements with works councils (*Betriebsräte*).

**7.9.4** The Company has paid and discharged to date all salaries, remuneration, bonuses, and other allowances and compensation due under the Employee Invention Act (*Arbeitnehmererfindungsgesetz*), in cash or otherwise, that were due and payable to its current and past employees.

**7.9.5** The Company has complied with any laws and regulations for health and safety of employees and of plant and equipment, and has complied with any orders or conditions imposed, or guidelines published, by the *Berufsgenossenschaft* upon the Company.

**7.10 Litigation**

**7.10.1** The Company and the Business have been conducted and are currently being conducted in full compliance with all material laws and other material administrative decrees and regulatory permits (other than Environmental Permits which shall be exclusively governed by Clause 7.11) that are applicable to the Company, the conduct or operation of the Business, the ownership of the assets and properties of the Company and employment related matters. Neither the Seller nor the Company has received any notice from any governmental authority regarding any failure to comply with any applicable law or other material administrative decrees and regulatory permits applicable to the Company or any liability on the part of the Company to undertake or bear all or any portion of any remedial action with respect to any non-compliance.

**7.10.2** There are no actions or omissions of the Company that will result in a third party claim for damages or specific performance (excluding, for the avoidance of doubt, claims for performance of a contract (*Erfüllungsansprüche*)) against the Company; provided that the foregoing shall not include any such claim to the extent it is caused by the announcement or consummation of the transactions contemplated by this Agreement or any actions or omissions taken by the Purchaser.

**7.10.3** With the exception of the proceedings listed in Schedule 7.10.3 the Company is not involved in any litigation, arbitration, administrative proceedings or administrative enquiries, including proceedings initiated by Tax Authorities. The Company has not received any written notice that any such proceedings are imminent.

**7.10.4** Except as listed in Schedule 7.10.4, neither the Company nor the Business is subject to or bound by any order, judgment, decree or ruling issued by any court, arbitrator or other governmental authority which materially restricts the Company in the operation of the Business.

**7.11 Environmental**

**7.11.1** The Company holds in full force and effect all Environmental Permits required for the operation of its current Business and there are no events or circumstances which may lead to a revocation, suspension or amendment, in full or in part, of any Environmental Permit.

**7.11.2** The Company has not violated nor is in violation of any requirements of any Environmental Laws in connection with the conduct of its business or in connection with the use, maintenance or operation of any real property now or previously owned, used, leased or operated by it or any appurtenances thereto or improvements thereon, other than violations which would not have a material adverse effect on the business, operations, properties, prospects, assets or condition of the Company. There are no present or past conditions relating to the Company or relating to any real property now or previously owned, used or operated by it or improvements thereon or real property previously owned, used or operated by the Company or its predecessors in title that could lead to any liability of the Company for violation of any Environmental Laws, other than liabilities which would not have a material adverse effect on the business, operations, properties, prospects, assets or condition of the Company. The Company has not received notice from any authority charged with the enforcement of Environmental Laws of a violation of any requirements of any Environmental Laws.

**7.11.3** The Company has not received any notice that any property now or previously owned, operated or leased by the Company is listed on any list of sites requiring investigation or cleanup; and no lien has been filed against either the personal or real property of the Company under any Environmental Law, or order issued with respect thereto.

**7.11.4** Except as disclosed in Schedule 7.11.4, since the Company has been acquired by the Seller in 1997, it has not produced, distributed or sold any asbestos containing materials nor has it assumed, voluntarily or otherwise, any liability for asbestos containing materials from any predecessor company or other third party.

**7.12 Product Liability**

Except as disclosed under Schedule 7.12, as of the date hereof, (i) no product liability claims relating to any products of the Company or the Business exceeding Euro 100,000 in the aggregate are pending, or to the Seller's Knowledge, threatened, against the Company, and (ii) the Company has not received any order from any governmental authority to recall any of the products manufactured and delivered by the Company in the last 36 months and there is no pending or to Seller's knowledge, threatened, investigation by any governmental authority relating to any of the products manufactured by the Company. By way of clarification, the claims referred to in this Clause 7.12 would include claims under the German Produkthaftungsgesetz.

**7.13 Contracts**

**7.13.1** The Seller has included in the Data Room all of the material written contracts and agreements to which the Company is a party and which are material to the Business (the "**Contracts**").

**7.13.2** Each Contract is in full force and effect and is enforceable by the Company in accordance with its terms. The Company has performed in all material respects the obligations required to be performed by it under each Contract to which it is a party, except for such failure or failures to perform which would not have a material adverse effect. To the Seller's Knowledge, the Company has not received any notice or default under any Contract to which it is a party, and the Company has not received any notice that any other party to a Contract intends to terminate such Contract with or without cause.

**7.13.3** As of the Closing Date, the Company does not have any contracts or agreements in effect which relate to sales or other contracts with Iran, Sudan, North Korea, Cuba or Syria.

**7.14 Data Room Disclosure**

To the Seller's Knowledge, the Seller has not failed to disclose to the Purchaser any fact material to the Company in the Data Room.

**8 Purchaser's Guarantees**

The Purchaser guarantees by way of an independent promise of guarantee (*selbständiges Garantieversprechen*) pursuant to § 311 BGB that the statements set forth in this Clause 8 are true and correct as of the Closing Date.

**8.1 Purchaser's Capacity**

The Purchaser is a duly existing Delaware corporation and is entitled to enter into the transactions contemplated by this Agreement and to perform all of the transactions contemplated by this Agreement. All necessary corporate consents for these transactions have been given. This Agreement constitutes the legal, valid and binding obligations of Purchaser and is enforceable against Purchaser in accordance with its terms. Except as set forth on Schedule 8.1, the execution, delivery and performance of this Agreement will not (with notice or lapse of time or both) violate, conflict with or result in a breach of (a) the organizational documents of Purchaser or (b) any law applicable to the Purchaser or its business. Except as set forth on Schedule 8.1, the Purchaser is not required to give any notice to, make any filing with or obtain any authorization, consent or approval from any third party or governmental authority to enter into this Agreement or perform the transactions contemplated by this Agreement.

**8.2 No Insolvency**

No insolvency or similar proceedings have been opened or applied for in respect of the Purchaser and the Purchaser is not over-indebted or unable to pay its due debts.

**8.3 Consequences of a Breach**

In the event of a breach of any of the Purchaser's guarantees the statutory provisions shall apply.

**9 Legal Consequences**

**9.1 Exhaustive Provisions**

Subject to mandatory law, in particular sec. 123 or sec. 276 para. 3 BGB, and except as set forth in this Clause 9.1, the provisions set forth in Clauses 9.2 to 9.7 shall be exhaustive and shall apply instead and to the exclusion of any and all remedies available to Purchaser under the law in the event of defects in quality or title (*Sach- oder Rechtsmängel*) of the Company. Any further liability of the Seller and any differing or further rights or claims of the Purchaser – including without limitation, the right of rescission (*Anfechtung*) or withdrawal (*Rücktritt*) – arising from or in connection with defects in quality or title, from incorrectness and violation of any of the Seller's Guarantees, guarantees or from the breach of any contractual or pre-contractual obligation shall be excluded. This Clause 9.1 shall not, however, apply to any breaches of Clause 11.2 or to claims under any indemnity pursuant to Clause 4.1, and in the event of a breach of Clause 11.2, Purchaser or the Company shall have any remedies available under applicable law.

**9.2 Seller's Knowledge**

To the extent that the Seller's Guarantees are restricted to "Seller's Knowledge", this shall mean that none of the persons listed in Schedule 9.2 has positive knowledge or cogent reasons to believe (*Kennen oder Kennenmüssen*) that the statement concerned was incorrect, had it been made without the restriction.

**9.3 Seller's Liability**

**9.3.1** Seller shall indemnify and hold harmless Purchaser against and from any and all costs, losses, penalties, fines, damages, liabilities and expenses (including reasonable accountant's and attorney's fees and expenses) ("**Losses**") incurred or suffered by Purchaser arising out of or relating to (i) any third party claims arising out of or related to any use, on or prior to the Closing Date, of asbestos by the Company or the Business or of any entity that was an affiliate or predecessor of the Company prior to the Closing Date (including without limitation, products liability claims and premises liability claims made by any persons), and (ii) any Losses arising out or related to the TMD Agreement. By way of clarification, any Losses relating to Taxes shall be addressed solely under Clause 10.

**9.3.2** The Purchaser shall notify the Seller without undue delay and in any event within 20 Business Days after having positive knowledge *(positive Kenntnis)* of any claim for breach of a Seller's Guarantee or of a Seller's covenant (ie claims under Clause 9.3.3) or for indemnity pursuant to Clauses 9.3.1 or 10 (the "**Claim Notice**"). The Claim Notice shall describe the claim and the underlying facts in reasonable detail and shall, to the extent possible, specify the amount of the estimated damage.

**9.3.3** If (i) a Seller's Guarantee is incorrect in whole or in part or (ii) the Seller is in breach of any covenant (in whole or in part) contained in this Agreement, the Seller shall be liable to put the Company in the position which would have existed had the Seller's Guarantee been correct or the covenant had not been breached (*Naturalrestitution*). If the Seller has not remedied the breach of the Seller's Guarantee or of the Seller's covenant within a reasonable period of time (which shall be in any event, no more than 40 Business Days after receipt of the Claim Notice), the Seller shall be obliged to pay to the Purchaser the amount of any Losses that would be necessary to put the Company, or at the election of the Purchaser, the Purchaser in the position in which the Company or the Purchaser, respectively, would be in had the Seller's Guarantee been correct or the Seller's covenant not been breached.

**9.3.4** In respect of the scope of Seller's liability the following shall apply:

(i) Seller shall not be liable for indirect damages or consequential losses (including loss of profits) provided, however, that Seller shall be liable for all Losses arising out or relating to third party claims subject to Clauses 7.7.2, 7.10.2, 7.12, 9.3.1 (i) and 9.3.1 (ii) including any indirect damages or consequential losses related to any third party claims covered by that Clause.

(ii) Seller shall only be liable to the extent the event causing the damage has not been taken into account in the Annual Accounts or the Closing Statements.

(iii) Seller shall not be liable to the extent:

(a) the Purchaser's claim results from or is increased as a consequence of the passing or change of any law, statute, ordinance, rule, regulation, or administrative practice of any government, governmental department, agency or regulatory body after the Closing Date including (without prejudice to the generality of the foregoing) any increase in the rates of taxation or any imposition of taxation or any withdrawal of relief from taxation not actually (or prospectively) in effect at the Closing Date;

(b) the damage is paid by an insurance held by the Company or the Purchaser in which event the Seller shall be liable for increases in insurance premiums; provided that the Purchaser shall procure that unpaid insurance claims are assigned to the Seller (subject in all respects to Clause 9.7);

(c) the damage is paid from a third party; or

(d) the damage or liability occurs or is increased due to the fact that the Purchaser has not timely sent a Claim Notice in accordance with Clause 9.3.2, but only to the extent of such increase.

**9.3.5** For the avoidance of doubt, sec. 254 BGB (mitigation of damages) shall apply.

**9.3.6** Where one and the same set of facts (*Sachverhalt*) qualifies under more than one provision entitling Purchaser to a claim or remedy under this Agreement, there shall be only one claim or remedy. In particular, the foregoing shall apply if one and the same set of facts (*Sachverhalt*) qualifies under more than one of the Seller's Guarantees. If however the same set of facts entails several damages or losses, each of such losses can be claimed (but in not event one and the same damage can be claimed twice).

**9.4 Disclosure**

**9.4.1** The Purchaser has conducted its due diligence review of the Company through the disclosure of information included in the Data Room.

**9.4.2** The Purchaser's right to indemnification or other remedy based on a claim that any of Seller's Guarantees under Clauses 7.1, 7.2, 7.3, 7.6, 7.7.2, 7.10 and 7.12 (the "**Scheduled Seller's Guarantees**") are incorrect shall not be excluded or otherwise limited by Seller's disclosure of any facts outside this Agreement (including disclosure through the Data Room). The Purchaser's right to indemnification or other remedy based on a claim relating to any of Seller's Guarantees under any of the Scheduled Seller's Guarantees listed above will only be excluded or limited to the extent that the Seller expressly included specific disclosures which limit or otherwise qualify any of Seller's Guarantees under any of the Scheduled Seller's Guarantees or in a schedule to which a Scheduled Seller's Guarantee expressly refers.

**9.4.3** Any liability of the Seller in relation to the Seller's Guarantees under Clauses 7.4, 7.5, 7.7.1, 7.8, 7.9, 7.11 and 7.13 shall be excluded if the information or facts giving rise to the relevant claim were known or could have been known by the Purchaser or by any of the respective employees or agents or financial, accounting, legal or other advisers involved in the acquisition of the Shares. The Purchaser acknowledges that the information and facts that Seller has made available to the Purchaser and its advisers in the Data Room are known or could be known by the Purchaser.

**9.4.4** The Purchaser has no actual knowledge of any breach by the Seller of any Seller Guarantee in this Agreement based on the actual knowledge of Tony Carpani, Mark Cox, Keith Hildum and David Seitz after reasonable due inquiry with the Purchaser's advisors.

**9.5 Limitation of Liability**

**9.5.1** The Seller shall only be liable for claims for breach of a Seller's Guarantee if:

(i) the individual claim exceeds an amount of EUR 50,000; and

(ii) the aggregate amount of the claims exceeding the threshold in (i) above exceeds EUR 500,000 in which event, the Purchaser shall have the right to seek recovery of all such claims in excess of the first EUR 500,000.

**9.5.2** Except as provided in this Clause 9.5.2, the Seller's liability under this Agreement shall be limited to a maximum amount of 30% of the Purchase Price. With respect to any Losses under Clause 9.3.1(i), the Seller's liability shall be limited to EUR 60,000,000 (in words: Euro sixty million). With respect to any Losses arising out of a breach of any Seller's Guarantee relating to title or ownership of the Shares set forth in Clause 7.1, 7.2 or 7.3 or any Losses under Clause 9.3.1(ii) or any Losses or other amounts payable under Clauses 10 or 4.3 or any Losses arising out of fraud or wilful misconduct or any payments in relation to the Profit Transfer Agreement, the Seller's liability shall not be limited in any respect.

**9.6 Time Limitation**

The claims of the Parties under this Agreement shall become time-barred as follows:

**9.6.1** Claims arising from a breach of a Seller's Guarantee pursuant to Clauses 7.1, 7.2 or 7.3 shall become time-barred fifteen (15) years after the Closing Date.

**9.6.2** Claims arising under Clause 9.3.1 (ii) shall not be time-barred.

**9.6.3** Claims of the Purchaser arising from indemnities in connection with Clauses 5.1, 5.2 or 10 shall become time-barred after the later of the expiration of the applicable statute of limitations relating to such matters or six months after the final and binding Tax assessment for the respective Tax.

**9.6.4** Claims of the Purchaser arising from a breach of Seller's Guarantee pursuant to Clause 7.10.2 shall become time-barred after 14 months from the Closing Date.

**9.6.5** Claims of the Purchaser arising from a breach of a Seller's Guarantee pursuant to Clause 7.11 shall become time-barred after 6 years from the Closing Date.

**9.6.6** Claims of the Purchaser pursuant to Clause 9.3.1(i) in relation to the use of asbestos shall become time-barred after 30 years from the Closing Date.

**9.6.7** All other claims of the Purchaser arising from this Agreement shall become time-barred after 24 months from the Closing Date. Sec. 203 BGB shall not apply.

**9.6.8** Claims of the Seller pursuant to Clause 10.2 shall become time-barred six months after the Seller has received a written notice from the Purchaser in respect of the receipt of the Tax refund, Tax allowance or the final and binding assessment for the respective Tax.

**9.7 Third Party Claims**

In the event a third party asserts a claim or files a law suit against the Purchaser and/or Company ("**Defendant**") in connection with a situation, for which the Seller could be liable under this Agreement ("**Third Party Claim**"), the Purchaser shall make available to the Seller without undue delay and in no event later than ten Business Days after the assertion or filing of the Third Party Claim a copy of the Third Party Claim and of all time-sensitive documents, and the following shall apply:

**9.7.1** Seller shall have the right to participate in the defence against the Third Party Claim at its own costs if and to the extent the Seller notifies the Purchaser that the Seller wishes to participate in the defence of the claim. In such event, Purchaser shall procure that the Seller gets the opportunity to participate in such defence and defend the Defendant against the Third Party Claim. Save for Third Party Claims relating to IP Rights, as an alternative to a mere participation, the Seller shall have the right to control the defence of any Third Party Claim at its own costs so long as Purchaser shall have the right to participate at Purchaser's own cost. In the event that Seller assumes control over the defence of a Third Party Claim, the Purchaser shall procure that the Defendant gives to the Seller all such assistance as the Seller may reasonably require and shall appoint such legal and other professional advisors as the Seller may nominate to act on behalf of the Defendant in accordance with Seller's instructions.

**9.7.2** Purchaser shall procure that the Defendant will fully co-operate with the Seller in view of the defence of the Third Party Claim, provide the Seller and its representatives (including, for the avoidance of doubt, its advisors) access to all relevant business records and documents upon reasonable advance notice and permit the Seller and its representatives to consult and meet with the employees and advisors of the Purchaser and the directors, employees and advisors of the Company as may be reasonably requested with advance notice. On the written request of the Seller, the Purchaser shall procure that the employees of the Purchaser and/or the directors and employees of the Company are made available to the Seller and its advisors as may be reasonably requested with advance notice and will cooperate with the Seller in order to participate in any actions or proceedings relating to the Third Party Claim including, without limitation, attending in person any court hearing as a witness in such proceedings. Seller shall not settle or otherwise compromise a Third Party Claim without Purchaser's prior written consent if such settlement or compromise would reasonably be expected to adversely affect the Purchaser, the Company or the Business, such consent not to be unreasonably withheld or delayed.

**9.7.3** If and for as long as the Seller fails to notify the Purchaser after receipt of the Claim Notice in relation to the Third Party Claim that the Seller wishes to participate in or control the defence of the claim, the Purchaser shall duly defend the Third Party Claim to the best of its ability, shall keep the Seller regularly informed about the status of the claim and duly take into account any requests of the Seller regarding the defence of the Third Party Claim. Any acknowledgement or settlement of any Third Party Claim shall require the Seller's prior written consent, which shall not be unreasonably withheld or delayed. The Seller shall only be liable to reimburse the Purchaser to the extent that costs are reasonably and properly incurred by the Purchaser in relation to the defence of a Third Party Claim.

**9.7.4** To the extent the Purchaser does not comply in all material respects with its co-operation obligations pursuant to this Clause 9.7, the Seller shall not be liable in relation to the Third Party Claim, unless such failure by the Purchaser did not have any impact on the amount claimed by the Purchaser under this Agreement.

**9.8 Guarantee by BBA Aviation plc**

At the Closing, Seller shall procure BBA Aviation plc, its ultimate parent, to execute and deliver to Purchaser a guarantee in favour of Purchaser in the form attached hereto as Exhibit A.

**10 Tax Indemnities and Tax Refunds**

**10.1 Tax Indemnity**

**10.1.1** The Seller shall pay to the Purchaser the amount which is necessary to hold the Company harmless of any and all due and payable Taxes (together with any related interest or penalties related to such Taxes), which are finally and bindingly assessed (*bestandskräftig festgesetzt*) at the level of the Company and relate to periods ending on or before the Closing Date. Payments according to this Clause shall be due fifteen Business Days after the final and binding assessment of the Taxes. Seller shall also indemnify and hold the Company and the Purchaser harmless for any secondary liability under the German Tax Code (*Abgabenordnung*) of the Company or the Purchaser incurred after the Closing Date that relates to any group fiscal unity plans or arrangements (including the Profit Transfer Agreement or similar agreements) adopted by Seller and its Affiliates in which the Company participated prior to the Closing Date.

**10.1.2** Seller is under no obligation to indemnify Purchaser for the amount of any Taxes (together with any related interest or penalties related to such Taxes) which:

(i) are shown or provided for in the Closing Statements (i) as Tax liabilities (*Steuerverbindlichkeiten*), (ii) as Tax accruals (*Steuerrückstellungen*) or (iii) as part of the other accruals (*sonstige Rückstellungen*) for potential Tax liabilities, if any, to the extent that such Taxes (together with any related interest or penalties related to such Taxes) are covered by such liabilities or accruals shown or provided for the in the Closing Statement;

(ii) are the result of a retroactive reorganisation of the Company, of a late finalisation of the statutory accounts of the Company, or of not paying any amounts owed under the Profit Transfer Agreement when due, initiated or omitted by or under the ownership of the Purchaser;

(iii) relate to income that can be offset by Purchaser or the Company against Tax loss carry-backs or Tax loss carry-forwards that are available directly as a result of subsequent Tax audits with respect to periods ending on or before the Closing Date); or

(iv) arise or are increased as a result of the failure or omission of (i) the Company or (ii) the Purchaser or (iii) any of the Affiliates of Purchaser to make any valid claim, election, surrender, disclaimer, to give any valid notice, consent or to do anything else under the provisions of any enactment or regulation relating to Tax after the Closing Date.

**10.2 Tax Refunds**

**10.2.1** The Purchaser shall be obliged to reimburse the Seller for any Tax refunds or Tax allowances received by the Company and relate to periods ending on or before the Closing Date. This shall apply irrespective of whether the Tax refunds or Tax allowances are settled by actual payment or by set-off with Tax liabilities relating to periods beginning after the Closing Date. The Purchaser has no obligation to reimburse any Tax Refund received by the Purchaser for which Tax receivables (Steuerforderungen) have been recorded in the Closing Statements. By way of clarification, the Purchaser shall not be required to reimburse Seller any Tax refunds or allowances that are set-off against Tax liabilities relating to periods ending on or before the Closing Date that are not shown or provided for as liabilities or complete and accurate accruals in the Closing Statements.

**10.2.2** Payments pursuant to Clause 10.2.1 shall be due fifteen Business Days after the actual payment of the Tax refund to the Company and/or in case of a set-off with Tax liabilities relating to periods ending on or before the Closing Date fifteen Business Days after the declaration of the set-off.

**10.3 [Intentionally omitted.]**

**10.4 Seller's Rights of Participation**

**10.4.1** The Purchaser will ensure, that the Seller or a representative of the Seller, who is bound to secrecy by professional code ("**Seller's Representative**"), will be informed without undue delay (and in no event later than within 10 Business Days) by the Company of any notices in respect of the execution of a Tax audit and similar audits of Tax Authorities as well as on the issue of a Tax assessment or a similar measure of Tax Authorities for periods ending on or before the Termination Date. Such Tax audits and similar audits of Tax Authorities are hereinafter referred to as "**Tax Audits**"; such tax assessments and such measures of Tax Authorities are hereinafter referred to as "**Tax Measures**".

**10.4.2** The Seller and/or the Seller's Representatives are entitled to participate at the Seller's costs in Tax Audits including final meetings – to the extent legally permissible—and/or proceedings in respect of Tax Measures. If and to the extent the Seller or the Seller's Representatives do not participate in Tax Audits and/or proceedings in respect of Tax Measures, the Purchaser will ensure that the Seller or the Seller's Representative will be informed of the ongoing process of the Tax Audits and/or Tax Measures and that they will be given the opportunity to discuss all material measures of the Company in connection with the Tax Audits and/or Tax Measures with the Company. Any acknowledgement or settlement during or at the end of a Tax Audit or Tax Measure require the prior written consent of the Seller, which shall not be unreasonably withheld.

**10.4.3** Upon the Seller's request the Purchaser will procure that the Company will pursuant to the Seller's instruction file, withdraw or amend legal remedies in respect of Tax assessments relating to periods ending on or before the Closing Date, which have been amended due to Tax Audits, and/or in respect of Tax Measures, subject to the review and approval of the Purchaser (which may not be unreasonably withheld). Seller shall bear all reasonable costs of the Company and/or of the Purchaser in connection with the filing, withdrawal or amendments of legal remedies upon the Seller's request.

**10.4.4** In the event the Purchaser does not or not in due time fulfil its material obligations pursuant to Clauses 10.4.1 to 10.4.3 the Seller shall not be obliged to indemnify the Purchaser.

## 10.5 Tax Filings after the Closing Date

Seller shall prepare and make, or request the Company to prepare and make any Tax filings for periods ending on or prior to the Closing Date, subject to the review and approval of the Purchaser (which may not be unreasonably withheld). Tax filings for periods including the period ending on Closing Date shall be prepared on a basis consistent with those prepared for prior tax assessment periods, provided that such basis is in accordance with the applicable Tax laws as well as the published views of the Tax Authorities. The Seller shall ensure that any Tax filing to be made by the Seller and to be reviewed and approved by the Purchaser will be furnished to the Purchaser no later than 30 days prior to the due date of such Tax filing. If the due date of any Tax filing is earlier than 30 days after the Closing Date, such Tax filing shall be furnished to the Purchaser as soon as practicable.

# 11 Period after Closing

## 11.1 Information and Documents

For a period of seven years after the Closing Date, the Seller and their representatives shall have reasonable access at the Seller's expense to the books and records of the Company with respect to periods prior to the Closing Date to the extent that such access may reasonably be required by the Seller in connection with matters relating to the operations of the Business prior to the Closing Date. The Purchaser shall afford such access upon receipt of reasonable advance notice and during normal business hours. If the Purchaser or the Company desires to dispose of any of such books and records prior to the expiration of the aforementioned period or in the event that Purchaser intends to sell the stock of the Company, the Purchaser shall prior to such disposition give the Seller reasonable opportunity to, at the Seller's expense, make a copy of such books and records as the Seller may elect.

## 11.2 Competition Restriction

During a period of three years after the Closing Date, none of the Seller or its affiliates shall (i) in any country listed on Schedule 11.2 directly or indirectly carry on, be or become engaged in or be or become commercially interested in any business which is in competition with the current business activities of the Company, (ii) solicit the employment or services of individuals who have been manager or employees of the Company prior to the Closing Date unless the employment of such manager or employee has been terminated by the Company or (iii) solicit the business of any person or entity that is a customer or a supplier of the Company (if such solicitation is in competition with the Business) or cause any customer or supplier to cease doing business with the Company. Notwithstanding the foregoing, Seller and its Affiliates shall be permitted to acquire (directly or indirectly) any entity that is not primarily engaged in a business that is in competition with the current business activities of the Company but that is engaged in part in a business in competition with the current business activities of the Company so long as no more than Euro 10 million in annual sales of such entity are attributable to that competing business. In such event, Seller shall give Purchaser written notice of any such transaction, which notice shall describe in reasonable detail the overall transaction and the competitive business being purchased by Seller or its Affiliates. If Seller intends to acquire (directly or indirectly) any entity that is not primarily engaged in a business that is in competition with the current business activities of the Company but that has more than Euro 10 million in annual sales which are attributable to a competing business, Seller and Purchaser shall discuss in good faith whether Purchaser shall grant consent to such acquisition and whether such consent shall only be granted subject to any special restrictions or obligations imposed on the Seller or its Affiliates in relation to the competing business.

**12 Public Announcements and Confidentiality**

**12.1 Announcements**

No press or similar announcement in connection with the existence or the subject matter of this Agreement shall be made or issued by or on behalf of Seller, Purchaser, any of their Affiliates or the Company without the prior approval of the Seller and the Purchaser. This shall not affect any announcement required by law or any regulatory body or the rules of any recognised stock exchange on which the shares of either Party are listed but the Party with an obligation to make an announcement (or the Party whose Affiliate is under such obligation) shall consult with the other Party or its Affiliates as soon as reasonably practicable. The restrictions set forth in this Clause 12.1 shall terminate six months after the Closing Date.

**12.2 Confidentiality**

**12.2.1** The confidentiality agreement between the Seller and the Purchaser dated 6 July 2006 shall cease to have effect from the Closing Date.

**12.2.2** Each of the Seller and the Purchaser shall treat as strictly confidential and not disclose or use any information received or obtained as a result of or in connection with the entering into this Agreement which relates to the existence and the provisions of this Agreement or to the negotiations relating to this Agreement, including any information about the Seller, the Purchaser or any of its Affiliates including the Company.

**12.2.3** This Agreement shall not prohibit disclosure or use of any information if and to the extent:

(i) the disclosure or use is required by law, any regulatory body or any recognised stock exchange on which the shares of the Seller or the Purchaser or any of their Affiliates are listed;

(ii) the disclosure or use is required for the purpose of any judicial proceedings arising out of this Agreement or any other agreement entered into under or pursuant to this Agreement or the disclosure is made to a Tax Authority in connection with the Tax affairs of the disclosing Party;

(iii) the disclosure is made to professional advisers or actual or potential financiers of any Party on a need to know basis and on terms that such professional advisers or actual or potential financiers undertake to comply with the confidentiality obligations set out in this Agreement in respect of such information as if they were a party to this Agreement or are subject to a confidentiality obligation by law;

(iv) the disclosure is made to an Affiliate of any party provided that the disclosing Party shall procure that the respective Affiliate complies with the confidentiality obligations set out in this Agreement in respect of such information as if they were a party to this Agreement;

(v) the information is or becomes publicly available (other than by breach of this Agreement or any other confidentiality agreement between the Parties);

(vi) the other Party has given prior approval to the disclosure or use; or

(vii) the information can be shown by a Party through written documentation to have been independently developed by such Party;

provided that prior to disclosure or use of any information pursuant to Clause 12.2.3 (i) or (ii), the Party concerned shall notify the other Party in advance of such requirement with a view, if possible, to providing that other Party with the opportunity to contest such disclosure or use or otherwise to agree the timing and content of such disclosure or use.

## 13 Miscellaneous Provisions

### 13.1 Interest and Account Details

**13.1.1** Except as explicitly provided otherwise in this Agreement, to the extent any payment claims which are due for payment (*fällig*) under this Agreement are not paid on the respective due date, the outstanding amounts shall bear interest of 8% (including the due date and the date of actual payment). The interest shall be paid together with the outstanding amount to which it relates.

**13.1.2** All payments to be made under this Agreement shall be made,

(i) if to the Seller, to the following bank account or to any account notified in writing by the Seller to the Purchaser not later than 10 Business Days prior to the respective payment:

| | |
|---|---|
| Correspondent Bank: | Barclays Bank , London |
| SWIFT: | BARCGB22 |
| Bank: | Barclays Bank, London |
| Beneficiary: | BBA Aviation plc |
| Account No: | 64752644 |
| Currency of Account: | Euros |
| IBAN: | GB74BARC20000064752644 |

(ii) if to the Purchaser, to the following bank account or to any account notified in writing by the Purchaser to the Seller not later than 10 Business Days prior to the respective payment:

Account owner:

Bank:

Bank code:

SORT/ABA/SWIFT:

Account Name:

Account Number:

**13.2 Costs**

Each Party shall bear all costs incurred by it in connection with the preparation, negotiation and execution of this Agreement by itself. Unless explicitly set forth otherwise in this Agreement, the notarial fees and all registration and transfer taxes (including real estate transfer tax (*Grunderwerbsteuer*)) and duties that are payable as a result of the transactions contemplated in this Agreement shall be borne by the Purchaser.

**13.3 Notices to the Parties**

**13.3.1** Any notice or other communication in connection with this Agreement (each, a "**Notice**") shall be:

(i) in English language;

(ii) in writing delivered by hand, registered post or by courier using an internationally recognised courier company or by fax.

**13.3.2** A Notice to the Seller shall be sent to the following address, or such other person or address as the Seller may notify to the Purchaser from time to time:

Company Secretary
BBA Aviation plc
7th Floor, 20 Balderton St
London W1K 6TL United Kingdom

Facsimile: +44 20 7408 2318

with a courtesy copy to

Linklaters
FAO Andreas Kurtze
Mainzer Landstr. 16
60325 Frankfurt am Main
Germany

Facsimile: +49 69 71003 333.

**13.3.3** A Notice to the Purchaser shall be sent to the following address, or such other person or address as the Purchaser may notify to the Seller from time to time:

Westinghouse Air Brake Technologies Corporation
Attention Legal Department
1001 Air Brake Avenue
Wilmerding, Pennsylvania USA 15148
Facsimile: (412) 825-1305

with a courtesy copy to

Reed Smith LLP
Attention David L. DeNinno
435 Sixth Avenue
Pittsburgh, Pennsylvania USA 15219
Facsimile: (412) 288-3063

**13.3.4** A Notice shall be effective upon receipt (*Zugang*). Receipt shall be deemed to have occurred:

(i) at delivery, if delivered by hand, registered post or courier;

(ii) at transmission, if delivered by fax, provided that the person sending the facsimile shall have received a transmission receipt confirming a successful transmission thereof.

**13.4 Agents**

Each party is solely responsible for its obligations towards agents under contracts entered into by such party because of transactions contemplated in this Agreement.

**13.5 Assignments**

The Seller shall be free to assign and transfer, in whole or in part, this Agreement and any rights and obligations hereunder to any of its Affiliates without the consent of the Purchaser or the Company. Otherwise, this Agreement and any rights and obligations hereunder may not be assigned and transferred, in whole or in part, without the prior written consent of the other Parties hereto such consent not to be unreasonably withheld. The Seller hereby consents to the assignment of the Purchaser's expectancy right (*Anwartschaftsrecht*) in relation to the assignment of the Shares to a direct or indirect wholly-owned subsidiary of the Purchaser. All assignments and transfers of rights and obligations hereunder shall be notified to the other Party without undue delay.

**13.6 Disputes**

**13.6.1** Any dispute arising from or in connection with this Agreement and its consummation shall be finally settled by three arbitrators in accordance with the arbitration rules of the German Institution of Arbitration (*Deutsche Institution für Schiedsgerichtsbarkeit e.V.*) without recourse to the courts of law. The current version of the arbitration rules of the German Institution of Arbitration shall be stipulated in accordance with sec. 317 para. 1 BGB by the German Institution of Arbitration upon request of either of the Parties. The venue of the arbitration shall be Frankfurt am Main, Germany. The language of the arbitral proceedings shall be English, provided however, that the Parties shall be entitled to submit written evidence in the German language.

**13.6.2** In the event mandatory applicable law requires any matter arising from or in connection with this Agreement and its consummation to be decided upon by a court of law, the competent courts in and for Frankfurt am Main, Germany, shall have the jurisdiction thereupon.

**13.7 Form of Amendments**

Any amendment or supplement to or modification or termination of this Agreement, including this provision, shall be valid only if made in writing (*Schriftform*), except where a stricter form (e.g. notarisation) is required under applicable law. Any waiver, permit, consent and approval under this Agreement must be made expressly and in writing (*Schriftform*).

### 13.8 Invalid Provisions

Should any provision of this Agreement be deemed or held to be wholly or partly invalid, ineffective or unenforceable, this shall not affect the validity, effectiveness or enforceability of the remainder hereof. Any such invalid, ineffective or unenforceable provision shall, to the extent permitted by law, be deemed replaced by such valid, effective and enforceable provision as comes closest to the economic intent and purpose of such invalid, ineffective or unenforceable provision. The aforesaid shall apply *mutatis mutandis* to any gap in this Agreement.

### 13.9 Entire Agreement

This Agreement constitutes the entire agreement among and between the Parties with respect to the subject matter hereof and shall substitute and supersede any negotiations and understandings, oral or written, heretofore made between the Parties with respect to the subject matter hereof (unless otherwise explicitly set out in this Agreement). Side agreements to this Agreement do not exist.

### 13.10 Governing Law

This Agreement shall be governed by and construed in accordance with German law.

### 13.11 Additional Information and Documents

Seller and Purchaser shall, on request, on and after the Closing Date, cooperate with one another by providing any additional information, executing and delivering any additional documents and/or instruments and doing any and all such other things as may be necessary for the Parties or their counsels to consummate or otherwise implement the transactions contemplated in this Agreement.

## Schedule 1.1
## Definitions

"**Affiliate**" shall mean any affiliated company (*verbundene Unternehmen*) in the meaning of sec. 15 et seq. German Stock Corporation Act (*Aktiengesetz*), provided that for the purposes of this Agreement, the Company shall neither be deemed to be a Seller's Affiliate nor a Purchaser's Affiliate.

"**Agreed Pension Deductible**" shall be an amount of EUR 2,783,000.

**"Agreement"** shall mean this agreement.

**"Annual Accounts"** shall have the meaning set out in Clause 7.4.1.

**"BGB"** shall mean the German Civil Code (*Bürgerliches Gesetzbuch*).

**"Business"** shall have the meaning set out in Recital (C).

**"Business Day"** shall mean a day on which banks are generally open for business in Frankfurt am Main, Germany.

"**Cash**" shall mean the aggregated nominal amount of the items of cash and cash equivalents of the Company reflected in the Cash Statement.

"**Cash Statement**" shall mean a statement substantially in the format as Schedule 6.1 Part A (but applying actual figures as of the Closing Date) showing the following items of cash and cash equivalents existing at the Company as of the Closing Date (after taking into account transactions contemplated in Clause 5.1.1 and 5.1.2 and the Permitted Transactions under Clause 5.2):

(i) cash at hand (*Kassenbestand*);

(ii) cash at national banks (*Guthaben bei Staatsbanken*) and cash at banks (*Guthaben bei Kreditinstituten*);

(iii) cheques (*Schecks*); and

(iv) bills of exchange (Wechsel).

**"Claim Notice"** shall have the meaning set out in Clause 9.3.1.

**"Closing Date"** shall be 30 November 2006, 24.00 hrs CET/1 December 2006, 0.00 hrs CET.

"**Closing Statements**" shall have the meaning set out in Clause 6.1.

**"Company"** shall have the meaning set out in Recital (A).

**"Data Room"** means an "electronic data room" provided by Merrill Corporation and accessible for the Purchaser from 10 August until 22 November 2006 a copy of which has been given to each of the Seller and the Purchaser on non-rewritable DVD including, for the avoidance of doubt, the answers and information provided in response to the questions raised by the Purchaser as attached as Schedule 1.1DR.

**"Defendant"** shall have the meaning set out in Clause 9.7.

"**Dispute Period**" shall have the meaning set out in Clause 6.3.2.

"**Dispute Report**" shall have the meaning set out in Clause 6.3.2.

"**Disputed Item**" shall have the meaning set out in Clause 6.3.2.

**"Employees"** shall have the meaning set out in Clause 7.9.1.

"**Enterprise Value**" shall have the meaning set out in Clause 3.1.1.

**"Environmental Law"** shall mean the legal provisions or other governmental regulations for the protection of the environment applicable from time to time up to the Closing Date in the form as applied by the respective competent authority.

**"Environmental Permit"** means any licence, approval, authorisation, permission, agreement or exemption granted under Environmental Law.

"**Estimated Cash**" shall have the meaning set out in Clause 3.2.

"**Estimated Financial Debt**" shall have the meaning set out in Clause 3.2.

"**Expert**" shall have the meaning set out in Clause 6.3.3.

"**Financial Debt**" shall mean the aggregated nominal amount of interest bearing financing debt obligations (*Finanzverbindlichkeiten*) of the Company reflected in the Financial Debt Statement.

"**Financial Debt Statement**" shall mean a statement substantially in the format as attached as Schedule 6.1 Part B (but applying actual figures as of the Closing Date) showing the following items of interest bearing financing debt obligations (*Finanzverbindlichkeiten*) of the Company as of the Closing Date (after taking into account transactions contemplated in Clause 5.1.1 and 5.1.2 and the Permitted Transactions under Clause 5.2):

(i) bank loans (Verbindlichkeiten gegenüber Kreditinstituten), bonds and debenture loans; and

(ii) promissory notes (*Verbindlichkeiten aus Schuldscheinen und Eigenwechseln*), commercial papers, loans from third parties other than banks, the Seller or Affiliates of the Seller.

"**German GAAP**" shall mean the accounting principles generally accepted in Germany.

**"HGB"** shall mean the German Commercial Code (*Handelsgesetzbuch*).

"**IP-Rights**" shall have the meaning set out in Clause 7.7.1.

"**Losses**" shall have the meaning set out in Clause 9.3.1.

"**Material Adverse Effect**" shall mean an effect that either individually or in the aggregate is materially adverse to the Company as a whole and that shall have a negative effect of at least EUR 8,000,000 except to the extent (y) resulting from or arising by virtue of the announcement or consummation of the transactions contemplated by this Agreement or (z) any actions taken by the Purchaser caused the effect.

"**Notice**" shall have the meaning set out in Clause 13.3.1.

"**Parties**" shall mean the Seller and the Purchaser.

"**Permitted Transactions**" shall have the meaning set out in Clause 5.2.

"**Preliminary Purchase Price**" shall have the meaning set out in Clause 3.3.1.

"**Profit Transfer Agreement**" shall mean the domination and profit and loss transfer agreement (*Beherrschungs- und Gewinnabführungsvertrag*) between the Company and the Seller dated 23 November 1999, as amended.

"**Purchase Price**" shall have the meaning set out in Clause 3.1.

"**Purchaser**" shall have the meaning set out in the parties section (2).

"**Purchaser's Guarantees**" shall mean all of Purchaser's guarantees under Clause 4.1 and Clause 8.

"**Real Estate**" shall have the meaning set out in Clause 7.6.

"**Reference Working Capital**" shall be an amount of EUR 964,000.

"**Shares**" shall have the meaning set out in Recital (B).

"**Seller**" shall have the meaning set out in the parties section (1).

**"Seller's Knowledge"** shall have the meaning set out in Clause 9.2.

"**Seller's Representative**" shall have the meaning set out in Clause 10.4.1.

"**Seller's Guarantees**" shall mean Seller's guarantees set out in Clause 4.1 and Clause 7 and "**Seller's Guarantee**" means any of the Seller's Guarantees.

"**Tax Audits**" shall have the meaning set out in Clause 10.4.1.

"**Tax Authorities**" shall mean any taxing or other authority competent to impose any liability in respect of Tax or responsible for the administration and/or collection of Tax or enforcement of any law in relation to Tax.

"**Tax or Taxes**" shall mean all forms of taxation within the meaning of Sec. 3 German Fiscal Code (*Abgabenordnung* or *AO*) including for the avoidance of doubt any taxes related to a secondary liability and supplementary charges (*steuerliche Nebenleistungen*) according to Sec. 3 para. 4 AO.

"**Tax Measures**" shall have the meaning set out in Clause 10.4.1.

"**Termination Date**" shall mean 30 November, 2006.

"**Third Party Claim**" shall have the meaning set out in Clause 9.7.

"**TMD Agreement**" shall mean the agreement dated July 2000 between inter alia BBA Group plc, the Company and HSBC Private Equity Limited relating to the sale of BBA Group's automotive friction materials division.

"**VAT**" shall mean within the European Union such Tax as may be levied in accordance with (but subject to derogations from) the Directive 77/338/EEC and outside the European Union any taxation levied by reference to added value or sales.

"**Working Capital**" shall mean the aggregated amount of the assets and liabilities of the Company reflected in the Working Capital Statement.

"**Working Capital Adjustment**" shall mean the amount, if any, by which the Working Capital exceeds the Reference Working Capital by more than EUR 100,000 (such amount being expressed as a positive figure) or the amount, if any, by which the Working Capital is more than EUR 100,000 less than the Reference Working Capital (such amount being expressed as a negative figure).

"**Working Capital Statement**" shall mean a statement substantially in the format as attached as Schedule 6.1 Part C (but applying actual figures as of the Closing Date) showing the following assets and liabilities of the Company as of the Closing Date (after taking into account any transactions contemplated in Clause 5.1.1 and 5.1.2 and the Permitted Transactions under Clause 5.2):

(i) the aggregate of (a) all accounts receivable from trading (*Forderungen aus Lieferungen und Leistungen*) and (b) other assets (*sonstige Vermögensgegenstände*) in the meaning of sec. 266 para.2 B II nos 1 and 4 of the German Commercial Code;

(ii) plus prepaid expenses (*aktive Rechnungsabgrenzungsposten*) in the meaning of sec. 266 para.2 C of the German Commercial Code;

(iii) less the aggregate of (a) trade accounts payable (*Verbindlichkeiten aus Lieferungen und Leistungen*) and (b) prepayments received (*erhaltene Anzahlungen*) in the meaning of sec. 266 para.3 C nos 4 and 3 of the German Commercial Code;

(iv) less the aggregate of (a) other liabilities (*sonstige Verbindlichkeiten*) and (b) other provisions (*sonstige Rückstellungen*) in the meaning of sec. 266 para.3 B no 3 and sec. 266 para.3 C no 8 of the German Commercial Code;

(v) less deferred charges (*passive Rechnungsabgrenzungsposten*) in the meaning of sec. 266 para.3 D of the German Commercial Code.

Schedules 7.2.1 A, 7.2.1 B, 7.6, 7.7.1, 7.9.1 and 7.9.3 are referred to pursuant to sec. 14 Beurkundungsgesetz (German Law concerning Notarization)—Verweisung gemäß § 14 BeurkG. The persons appearing waive their right to have these Schedules read to them. They have taken note of these Schedules which were presented to them and have signed by them.

The above Agreement including Exhibit A and including Schedules 1.1, 1.1 DR, 5.2.2, 6.1 (Part A), 6.1 (Part B), 6.1 (Part C), 6.2, 7.1, 7.5, 7.7.2, 7.8, 7.9.2, 7.10.3, 7.10.4, 7.11.4, 7.12, 8.1, 9.2 and 11.2 was read aloud in the presence of the acting Notary to the persons appearing, approved by them and signed by the persons appearing and by the acting Notary in their own hand as follows:

/S/ TORSTEN ROSENBOOM

**Torsten Rosenboom**

/S/ DR. CHRISTIAN FRANZ

**Dr. Christian Franz**

/S/ DR. HENRYK HAIBT

**Dr. Henryk Haibt**

**Exhibit 21**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**SUBSIDIARIES AND AFFILIATES**

| Company | Jurisdiction of Incorporation | Ownership Interest |
|---|---|---|
| Allied Friction Products Australia Pty Ltd. | Victoria, Australia | 100% |
| Becorit GmbH | Germany | 100% |
| Cobra Europe S.A.S. | France | 100% |
| CoFren S.r.l. | Italy | 100% |
| CosRail GmbH | Germany | 100% |
| Evand Pty Ltd. | West Australia, Australia | 100% |
| FIP Pty Ltd. | Victoria, Australia | 100% |
| FIP Brakes South Africa (Proprietary) Limited | South Africa | 100% |
| FrenTec S.A.S. | France | 100% |
| Intermodal Trailer Express, Inc. | Delaware | 100% |
| Jinwu Control Systems Co. Ltd. | Jiangsu Province, China | 60% |
| MotivePower, Inc. | Delaware | 100% |
| Pioneer Friction Limited | West Bengal, India | 100% |
| Railroad Friction Products Corporation | Delaware | 100% |
| RFPC Holding Corporation | Delaware | 100% |
| Schaefer Equipment, Inc. | Ohio | 100% |
| Vapor Europe S.r.l. | Italy | 100% |
| Vapor Stone UK Limited | United Kingdom | 100% |
| Vapor UK Limited | United Kingdom | 100% |
| Vastbond Limited | Cyprus | 100% |
| Wabtec Australia Pty. Limited | Capital Territory, Australia | 100% |
| Wabtec Corporation | New York | 100% |
| Wabtec Canada, Inc. | Ontario, Canada | 100% |
| Wabtec de Mexico S.A., de R.L. de C.V. | Mexico | 100% |
| Wabtec Distribution Company | Delaware | 100% |
| Wabtec Holding Corp. | Delaware | 100% |
| Wabtec International, Inc. | Delaware | 100% |
| Wabtec Rail Limited | United Kingdom | 100% |
| Wabtec Railway Electronics Corporation | Nova Scotia | 100% |
| Wabtec Railway Products India Private Ltd. | West Bengal, India | 100% |
| Wabtec Servicios Administrativos, S.A. de C.V. | Mexico | 100% |
| Westinghouse Railway Holdings (Canada) Inc. | Ontario, Canada | 100% |
| Young Touchstone Company | Wisconsin | 100% |

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-80417, 333-53753, 333-39159, 333-02979, 333-115014, 333-137985, 333-41840, 333-40468, 333-35744 and 333-89086) of our reports dated February 23, 2007, with respect to the consolidated financial statements and schedule of Westinghouse Air Brake Technologies Corporation, Westinghouse Air Brake Technologies Corporation management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Westinghouse Air Brake Technologies Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2006.

/s/ ERNST & YOUNG LLP

Pittsburgh, Pennsylvania
February 23, 2007

**Exhibit 31.1**

# CERTIFICATION

I, Albert J. Neupaver, certify that:

1. I have reviewed this annual report on Form 10-K of Westinghouse Air Brake Technologies Corporation.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting, or caused such disclosure control over financial reporting to be designed under my supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

(d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

/S/ ALBERT J. NEUPAVER

| | |
|---|---|
| **Name:** | **Albert J. Neupaver** |
| **Title:** | **President, Chief Executive Officer and Director** |

**CERTIFICATION**

I, Alvaro Garcia-Tunon, certify that:

1. I have reviewed this annual report on Form 10-K of Westinghouse Air Brake Technologies Corporation.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting, or caused such disclosure control over financial reporting to be designed under my supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

(d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

/S/ ALVARO GARCIA-TUNON

| | |
|---|---|
| **Name:** | **Alvaro Garcia-Tunon** |
| **Title:** | **Senior Vice President, Chief Financial Officer and Secretary** |

**Exhibit 32.1**

**CERTIFICATION**

Pursuant to 18 U.S.C. § 1350, the undersigned officers of Wabtec Corporation (the "*Company*"), hereby certify, to the best of their knowledge, that the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (the "*Report*") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /S/ ALBERT J. NEUPAVER

**Albert J. Neupaver**
**President, Chief Executive Officer and Director**

Date: March 1, 2007

By: /S/ ALVARO GARCIA-TUNON

**Alvaro Garcia-Tunon**
**Senior Vice President, Chief Financial Officer and Secretary**

Date: March 1, 2007

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

# FORM 11-K

**(Mark One):**

☒ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-13782

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Westinghouse Air Brake Technologies Corporation Savings Plan

B. Name of issuer of the securities held pursuant to the plan and the address of the principal executive office:

Westinghouse Air Brake Technologies Corporation
1001 Air Brake Avenue
Wilmerding, PA 15148

The Westinghouse Air Brake Technologies Corporation Savings Plan is subject to the Employee Retirement Income Security Act of 1974. The required financial statements will be filed by amendment within the time prescribed by the rules of Form 11-K.