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

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 1998

Commission file number 1-13782

WESTINGHOUSE AIR BRAKE COMPANY
(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)	(Registrant's telephone number)

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

As of October 19, 1998, 33,875,883 shares of Common Stock of the registrant were issued and outstanding, of which 8,595,931 shares were unallocated ESOP shares.

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WESTINGHOUSE AIR BRAKE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEET

Dollars in thousands, except share data	(UNAUDITED) SEPTEMBER 30 1998	DECEMBER 31 1997
ASSETS		
CURRENT ASSETS		
Cash	$ 9,833	$ 836
Accounts receivable	110,880	91,438
Inventories	88,371	69,297
Other	18,750	18,928
Total current assets	227,834	180,499
Property, plant and equipment	209,625	186,534
Accumulated depreciation	(90,175)	(78,167)
Property, plant and equipment, net	119,450	108,367
OTHER ASSETS		
Prepaid pension costs	5,405	5,061
Goodwill	79,090	66,599
Other intangibles	39,389	42,466
Other noncurrent assets	5,374	7,887
Total other assets	129,258	122,013
Total Assets	$ 476,542	$ 410,879
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 15,000	$ 32,600
Accounts payable	48,745	37,582
Accrued income taxes	6,439	488
Accrued interest	3,382	3,038
Customer deposits	20,275	21,210
Other	36,555	36,862
Total current liabilities	130,396	131,780
Long-term debt	364,758	332,334
Reserve for postretirement benefits	15,659	14,860
Accrued pension costs	4,187	4,700
Other long-term liabilities	6,536	6,468
Total liabilities	521,536	490,142
SHAREHOLDERS' EQUITY		
Preferred stock, 1,000,000 shares authorized, no shares issued	--	--
Common stock, $.01 par value; 100,000,000 shares authorized and 47,426,600 shares issued	474	474
Additional paid-in capital	107,343	105,522
Less-Treasury stock, at cost, 13,566,378 and 13,743,924 shares	(188,134)	(190,657)
Less-Unearned ESOP shares, at cost, 8,611,491 and 8,751,531 shares	(129,172)	(131,273)
Retained earnings	171,557	141,617
Unamortized restricted stock award	(228)	--
Cumulative translation adjustment	(6,834)	(4,946)
Total shareholders' equity	(44,994)	(79,263)
Liabilities and Shareholders' Equity	$ 476,542	$ 410,879

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

Dollars in thousands, except share data	(UNAUDITED) THREE MONTHS ENDED SEPTEMBER 30 1998	1997	(UNAUDITED) NINE MONTHS ENDED SEPTEMBER 30 1998	1997
Net sales	$ 160,476	$ 142,761	$ 490,664	$ 417,335
Cost of sales	109,142	97,202	332,487	279,313
Gross profit	51,334	45,559	158,177	138,022
Selling and marketing expenses	7,747	6,594	21,815	18,328
General and administrative expenses	9,713	8,906	34,016	27,885
Engineering expenses	6,999	6,019	20,453	18,334
Amortization expense	1,694	2,004	5,873	6,113
Total operating expenses	26,153	23,523	82,157	70,660
Income from operations	25,181	22,036	76,020	67,362
Other income and expenses				
Interest expense	7,386	7,700	22,284	22,184
Other (income) expense, net	302	(150)	(141)	(306)
Income before income taxes	17,493	14,486	53,877	45,484
Income taxes	6,647	5,650	20,473	17,739
Income before extraordinary item	10,846	8,836	33,404	27,745
Loss on extinguishment of debt, net of tax			(2,730)	
Net income	$ 10,846	$ 8,836	$ 30,674	$ 27,745
Basic Earnings Per Common Share				
Income before extraordinary item	$ .43	$ .36	$ 1.33	$ 1.07
Extraordinary item, net			(.11)	
Net Income	$ .43	$ .36	$ 1.22	$ 1.07
Diluted Earnings Per Common Share				
Income before extraordinary item	$ .42	$ .35	$ 1.30	$ 1.06
Extraordinary item, net			(.11)	
Net Income	$ .42	$ .35	$ 1.19	$ 1.06
Weighted Average Shares Outstanding (in thousands)				
Basic	25,197	24,808	25,046	25,997
Diluted	25,696	25,282	25,696	26,235

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Dollars in thousands	(UNAUDITED) NINE MONTHS ENDED SEPTEMBER 30 1998	1997
OPERATING ACTIVITIES		
Net income	$ 30,674	$ 27,745
Adjustments to reconcile net income to cash provided by operations		
Depreciation and amortization	19,294	18,181
Provision for ESOP contribution	3,462	3,278
Extraordinary item	2,730	
Other	661	(1,337)
Changes in operating assets and liabilities		
Accounts receivable	(10,979)	(6,730)
Inventories	(12,981)	5,550
Accounts payable	6,781	(1,181)
Accrued income taxes	7,400	(2,162)
Accrued liabilities	(8,146)	3,542
Other assets and liabilities	(3,647)	2,392
Net cash provided by operating activities	35,249	49,278
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, net	(22,333)	(16,694)
Acquisitions of businesses	(19,314)	(13,492)
Net cash used for investing activities	(41,647)	(30,186)
FINANCING ACTIVITIES		
Net proceeds from term and revolving credit arrangements	14,895	23,987
Net proceeds from (payments of) other borrowings	(71)	2,100
Debt issuance fees	(1,037)	
Purchase of treasury stock, including fees		(46,068)
Cash dividends	(734)	(765)
Proceeds from exercise of stock options	2,094	2,460
Net cash provided by (used for) financing activities	15,147	(18,286)
Effect of changes in currency exchange rates	248	(1,168)
Increase (decrease) in cash	8,997	(362)
Cash, beginning of period	836	618
Cash, end of period	$ 9,833	$ 256

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1998
(UNAUDITED)

1. BUSINESS

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

2. ACCOUNTING POLICIES

BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission and include the accounts of Westinghouse Air Brake Company and its majority owned subsidiaries ("WABCO"). These condensed interim financial statements do not include all of the information and footnotes required for complete financial statements. In management's opinion, these financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods presented. Results for these interim periods are not necessarily indicative of results to be expected for the full year. Certain prior period amounts have been reclassified, where necessary, to conform to the current period presentation.

The notes included herein should be read in conjunction with the audited consolidated financial statements included in WABCO's Annual Report on Form 10-K for the year ended December 31, 1997.

USE OF ESTIMATES

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

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).

OTHER COMPREHENSIVE INCOME

In 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which established standards for reporting and displaying comprehensive income and its components in financial statements. Comprehensive income is defined as net income and all nonowner changes in shareholders' equity. The Company's accumulated other comprehensive income (loss) consists entirely of foreign currency translation adjustments. Total comprehensive income for the third quarter ending September 30, 1998 and 1997 was $10.1 million and $8.7 million respectively, and for the nine months ending September 30, 1998 and 1997 was $28.8 million and $27.1 million respectively.

RECENT ACCOUNTING PRONOUNCEMENT

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

Historically, the Company has had a relatively low amount of transactions that are hedging transactions. Had the Company adopted this standard currently, the effect on the results of operations, financial condition and liquidity would not be significant.

3. ACQUISITIONS

In April 1998, the Company acquired 100% of the stock of RFS (E) Limited ("RFS") of Doncaster, South Yorkshire, England, for approximately $10.0 million including the assumption of certain debt. RFS is a leading provider of vehicle overhaul, conversion and maintenance services to Britain's railway industry and had revenue of approximately $27.5 million for its most recent fiscal year. The acquisition was accounted for under the purchase method. The excess of the purchase price over the fair value of the net assets acquired of approximately $4.0 million was allocated to goodwill.

In April 1998, the Company completed the acquisition of the transit coupler product line of Hadady Corporation. The total investment was for approximately $4.6 million and was accounted for under the purchase method. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill.

On July 30, 1998, the Company purchased assets of Lokring Corporation of California for $5.1 million in cash and in addition, the assumption of certain liabilities. Lokring develops, manufactures and markets patented connectors and sealing products for railroad and other industries, and had approximately $10 million in revenue for the fiscal year 1997. The acquisition was accounted for under the purchase method and the excess of the purchase price over the fair value of the net assets acquired of approximately $5.3 million was allocated to goodwill.

4. INVENTORIES

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

Dollars in thousands	SEPTEMBER 30 1998	DECEMBER 31 1997
Raw materials	$39,306	$27,395
Work-in-process	30,972	26,640
Finished goods	18,093	15,262
Total inventory	$88,371	$69,297

5. RESTRICTED STOCK AWARD

In February 1998, the Company granted 15,000 shares of restricted common stock to an officer. The shares vest according to a vesting schedule over the next 29 months. The grant date market value totaled $372 thousand and is being amortized to expense over the vesting period. Unamortized compensation is recorded as a separate component of shareholders' equity.

6. EARNINGS PER SHARE

The computation of earnings per share is as follows:

In thousands, except per share	THREE MONTHS ENDED SEPTEMBER 30 1998	1997	NINE MONTHS ENDED SEPTEMBER 30 1998	1997
BASIC EARNINGS PER SHARE				
Income, before extraordinary item, applicable to common shareholders	$10,846	$8,836	$33,404	$27,745
Divided by				
Weighted average shares outstanding	25,197	24,808	25,046	25,997
Basic earnings per share, before extraordinary item	$.43	$.36	$1.33	$1.07
DILUTED EARNINGS PER SHARE				
Income, before extraordinary				

item, applicable to common shareholders	$10,846	$8,836	$33,404	$27,745
Divided by sum of				
Weighted average shares outstanding	25,197	24,808	25,046	25,997
Conversion of dilutive stock options	499	474	650	238
Diluted shares outstanding	25,696	25,282	25,696	26,235
Diluted earnings per share, before extraordinary item	$.42	$.35	$1.30	$1.06

7. NEW CREDIT FACILITY

In June 1998, the Company refinanced its credit agreement with a consortium of commercial banks. On October 2, 1998, the Company obtained an amendment for an additional $40 million term loan. In the aggregate, the refinanced credit facility, as amended, is $350 million which consists of $210 million of term loans and up to $140 million of revolving loans, and also includes interest rates that are based on several options, including LIBOR and prime and provides for letters of credit and swingline loans that reduce the amount of credit available. The new agreement also extends the final maturity dates until December 2003 for both the term and revolving loans, provides for a more level principal payment schedule and more flexibility for business acquisitions and capital expenditures. At September 30, 1998, the Company had available borrowing capacity of approximately $24 million.

In connection with the June 1998 Refinanced Credit Agreement, the Company wrote off approximately $4.4 million of previously capitalized costs relating to the previous credit agreement. This resulted in a net of tax charge of $2.7 million or $.11 per share in the period ended June 30, 1998, which has been reflected as an extraordinary item.

8. SUBSEQUENT EVENT

On October 5, 1998, the Company purchased the railway electronics business (Rockwell Railroad Electronics) of Rockwell Collins, Inc., a wholly owned subsidiary of Rockwell International Corporation for approximately $80 million in cash. The purchase was financed by obtaining; additional term debt of $40 million through an amendment to the Company's existing credit facility, an unsecured bank loan of $30 million and through available borrowing capacity. Rockwell Railroad Electronics (RRE) is a leading manufacturer and supplier of mobile electronics (display and positioning systems), data communications, and electronic braking systems for the railroad industry and its operations are in the United States. Revenues of the acquired business for its September 1998 year end is expected to approximate $45 million. The acquisition will be accounted for under the purchase accounting method.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Company's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its 1997 Annual Report on Form 10-K.

OVERVIEW

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

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

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

THIRD QUARTER 1998 COMPARED TO THIRD QUARTER 1997

SUMMARY RESULTS OF OPERATIONS

Dollars in thousands except per share	THREE MONTHS ENDED SEPTEMBER 30 1998	1997	PERCENT CHANGE
Net income	$10,846	$8,836	22.7
Diluted earnings per share	.42	.35	20.0
Net sales	160,476	142,761	12.4
Income from operations	25,181	22,036	14.3
Earnings before interest, taxes, depreciation and amortization	31,174	28,219	10.5

Net income increased 2.0 million or 22.7% due to the effect of increased sales, particularly in the Freight Car market and the effect of sales from operations acquired since last year. Net sales were $160.5 million for the third quarter of 1998, reflecting a $17.7 million, or 12.4%, increase compared to the year-earlier period. The higher revenue base reflects the benefits associated with acquisitions and a strong Freight OE and aftermarket. Both operating income and earnings before interest, taxes, depreciation and amortization increased primarily due to revenue growth and related gross margins.

Several events occurred in the comparative period that impacted the Company's results of operations and financial condition including:

- The Company completed several acquisitions that complement and enhance the mix of existing products and markets. Acquisitions completed during the past year were Lokring Corporation, RFS(E),Ltd., the transit coupler product line of Hadady Corporation, the rail products division of Sloan Valve, the Italian transit company H. P. s.r.l., and the heavy rail air conditioning business of Thermo King Corporation. Incremental revenues from these operations totaled $12.3 million and accounted for 69% of the overall sales increase in the period-to-period comparison.

NET SALES

The following table sets forth, for the period indicated, the Company's net sales by market:

Dollars in thousands	THREE MONTHS ENDED SEPTEMBER 30 1998	1997
Electronics	$11,660	$16,629
Freight Car	67,857	53,502
Transit	48,937	43,172
Locomotive	14,020	11,441
Friction & Other	18,002	18,017
Net sales	$160,476	$142,761

Net sales for the third quarter of 1998 increased $17.7 million, or 12.4%, to $160.5 million. Increased volumes in the Freight Car business reflect a strong original equipment manufacturer market that benefited from 18,000 freight car deliveries compared with 12,000 a year ago, the acquisition of RFS(E), Ltd., and a strong aftermarket. The Locomotive business also benefited from the recent acquisition of RFS.

GROSS PROFIT

Gross profit increased 12.7% to $51.3 million in the third quarter of 1998 compared to $45.6 million in the year-earlier period. Gross margin, as a percentage of sales, was 32%, similar to that of the same quarter last year. Gross margin is dependent on a number of factors including sales volume and product mix. Higher sales volumes, as a percentage of total sales in the Freight Car business offset by incremental revenue from recent acquisitions at lower margins contributed to stable overall margins in the comparison.

OPERATING EXPENSES

Dollars in thousands	THREE MONTHS ENDED SEPTEMBER 30 1998	1997	PERCENT CHANGE
Selling and marketing	$7,747	$6,594	17.5
General and administrative	9,713	8,906	9.1
Engineering	6,999	6,019	16.3
Amortization	1,694	2,004	(15.5)
Total operating expenses	$26,153	$23,523	11.2

Total operating expenses as a percentage of net sales was 16.3% in the third quarter of 1998 compared with 16.5% a year ago. Total operating expenses increased $2.6 million in the period-to-period comparison, reflecting the effect of acquisitions completed in 1997 and 1998. Incremental expenses from acquired businesses totaled $1.6 million. In addition, higher operating expenses reflect costs associated with computer system upgrades which includes Year 2000 compliant computer software and certain strategic initiatives including expanded international marketing activities and additional engineering efforts associated with new product development. Amortization expense was lower in the third quarter 1998 due to the write off of previously capitalized bank financing fees in June 1998, however, amortization will increase in the future due to goodwill associated with the recent acquisition of the railway electronics business of Rockwell Collins, Inc.

INCOME FROM OPERATIONS

Operating income totaled $25.2 million in third quarter of 1998 compared with $22.0 million a year ago. Higher operating income results from higher sales volume and related higher gross profit.

INCOME TAXES

The provision for income taxes increased $1.0 million to $6.6 million in the third quarter of 1998 compared with the same period of 1997. The effective tax rate dropped to 38% in the third quarter of 1998 from 39% a year ago, resulting from additional benefits through our foreign sales corporation and lower overall effective state tax rates.

NINE MONTH PERIOD ENDED SEPTEMBER 30, 1998 COMPARED TO THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 1997

SUMMARY RESULTS OF OPERATIONS

Dollars in thousands except per share	NINE MONTHS ENDED SEPTEMBER 30 1998	1997	PERCENT CHANGE
Income before extraordinary item	$33,404	$27,745	20.4
Diluted earnings per share, before extraordinary item	1.30	1.06	22.6
Extraordinary item, net of tax	(2,730)		nm
Net income	30,674	27,745	10.6
Diluted earnings per share	1.19	1.06	12.3
Net sales	490,664	417,335	17.6
Income from operations	76,020	67,362	12.9
Earnings before interest, taxes, depreciation and amortization	95,455	85,849	11.2

nm - not meaningful

Income before extraordinary item for the nine month period ending September 30, 1998 increased $5.7 million, or 20.4%, compared with the same period a year ago. Net sales were $490.7 million for the nine month period ending September 30, 1998, reflecting a $73.3 million, or 17.6%, increase compared to the year-earlier period. The higher revenue base reflects the benefits associated with acquisitions and a strong Freight OE and aftermarket. Operating income and earnings before interest, taxes, depreciation and amortization increased in the comparison primarily due to revenue growth and related gross margins. Because of the $2.7 million extraordinary charge to write-off certain previously capitalized debt issuance costs in the second quarter of 1998 related to the refinanced credit facility, net income increased only $2.9 million, compared with the same period a year ago.

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

- The Company completed several acquisitions that complement and enhance the mix of existing products and markets. Acquisitions completed during this timeframe were Lokring Corporation, RFS(E),Ltd., the transit coupler product line of Hadady Corporation, Stone Safety Service Corporation, Stone U.K. Limited, the Italian transit company H.P. s.r.l., the rail products division of Sloan Valve and the heavy rail air conditioning business of Thermo King Corporation. Incremental revenues from these operations in the nine months ended September 30, 1998, totaled $38.7 million and accounted for 53% of the overall sales increase in the period-to-period comparison.

- In June 1998, the Company refinanced its credit agreement and wrote-off previously deferred financing costs of approximately $2.7 million ($.11 per share), net of income tax, which has been reported as an extraordinary item.

- In March 1997, the Company repurchased 4 million shares of its common stock held by a major shareholder for $44 million plus $2 million in related fees.

NET SALES

The following table sets forth, for the period indicated, the Company's net sales by market:

Dollars in thousands	NINE MONTHS ENDED SEPTEMBER 30 1998	1997
Electronics	$35,691	$61,928
Freight Car	204,294	141,529

Transit	145,781	123,166
Locomotive	46,817	35,272
Friction & Other	58,081	55,440
Net sales	$490,664	$417,335

Net sales for the nine month period ending September 30, 1998 increased $73.3 million, or 17.6%, to $490.7 million. Increased volumes in the Freight Car business reflect a strong original equipment manufacturer market, with approximately 55,000 freight cars delivered year to date compared to 37,000 in the same period last year. Increases in the Transit market primarily represent results of acquired operations. These increases were partially offset by lower sales in the Electronics business, where in the prior year period, product sales benefited from a federal mandate that certain monitoring equipment be installed in trains by July 1997.

GROSS PROFIT

Gross profit increased 14.6% to $158.2 million in the nine month period ending September 30, 1998 compared to $138.0 million in the year-earlier period. Gross margin, as a percentage of sales, was 32.2% as compared to 33.1%. Gross margin is dependent on a number of factors including sales volume and product mix. Incremental revenue from recent acquisitions at lower margins as compared to the Company's historical results, was the primary reason for the lower margins in the period-to-period comparison.

OPERATING EXPENSES

Dollars in thousands	NINE MONTHS ENDED SEPTEMBER 30 1998	1997	PERCENT CHANGE
Selling and marketing	$21,815	$18,328	19.0
General and administrative	34,016	27,885	22.0
Engineering	20,453	18,334	11.6
Amortization	5,873	6,113	(3.9)
Total operating expenses	$82,157	$70,660	16.3

Total operating expenses as percentage of net sales were 16.7% in the nine month period ending September 30, 1998 compared with 16.9% a year ago. Total operating expenses increased $11.5 million in the period-to-period comparison. Incremental expenses from acquired businesses totaled $4.5 million or 39% of the increase. In addition, higher operating expenses reflect costs associated with computer system upgrades which includes Year 2000 compliant computer software and for certain strategic initiatives including expanded international marketing activities and additional engineering efforts associated with new product development.

INCOME FROM OPERATIONS

Operating income totaled $76.0 million in the nine month period ending September 30, 1998 compared with $67.4 million a year ago. Higher operating income results from higher sales volume and related higher gross profit.

INCOME TAXES

The provision for income taxes increased $2.7 million to $20.5 million for the nine month period ending September 30, 1998 compared with the same period of 1997. The effective tax rate declined to 38% in the nine month period ending September 30, 1998 from 39% a year ago, resulting from additional benefits through our foreign sales corporation and lower overall effective state tax rates.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is provided primarily by operating cash flow and long-term borrowings. WABCO's operations generated cash flow totaling $35.2 million in the nine month period ending September 30, 1998 compared to $49.3 million from the prior period. Working capital has increased due to higher accounts receivable and increased inventory levels which are associated with increased sales growth. Gross capital expenditures were $22.3 million and $16.7 million in the first nine months of 1998 and 1997, respectively. The majority of capital expenditures reflect spending for replacement equipment and facilities for increased capacity and efficiency. The Company expects capital expenditures in 1998, exclusive of acquisitions, to approximate $30 million.

The following table sets forth outstanding indebtedness and average interest rates at September 30, 1998. The revolving credit note and term loan interest rates are variable and dependent on market conditions. Interest on the note payable related to the Pulse acquisition can vary with changes to prime.

Dollars in thousands	SEPTEMBER 30, 1998
Revolving credit notes 7.16%, due December 2003	$91,275
Term loan, 7.25%	170,000
Senior notes, 9.375%, due June 2005	100,000
Note payable-Pulse acquisition, 9.5%, due January 2004	16,990
Other	1,493

Total	379,758
Current portion	15,000
Long-term portion	$364,758

In June 1998, the Company refinanced its credit agreement with a consortium of commercial banks. On October 2, 1998, the Company obtained an amendment for an additional $40 million term loan. In the aggregate, the refinanced credit facility, as amended, is $350 million which consists of $210 million of term loans and up to $140 million of revolving loans, and also includes interest rates that are based on several options, including LIBOR and prime and provides for letters of credit and swingline loans which reduce the amount of credit available. The new agreement also extends the final maturity dates until December 2003 for both the term and revolving loans, provides for a more level principal payment schedule and more flexibility for business acquisitions and capital expenditures. At September 30, 1998, the Company had available borrowing capacity of approximately $24 million. After the October 1998 acquisition of the railway electronics business of Rockwell Collins, Inc., available borrowing capacity was reduced by approximately $10 million.

Management believes, based upon current levels of operations and forecasted earnings, that cash flow from operations, together with borrowings under the Credit Agreement, will be adequate to make payments of principal and interest on debt, including the Notes, to make required contributions to the ESOP, to permit anticipated capital expenditures, and to fund working capital requirements and other cash needs. Nevertheless, the Company will remain leveraged to a significant extent and its debt service obligations will continue to be substantial. If the Company's sources of funds were insufficient to satisfy the Company's cash requirements, the Company may need to refinance its existing debt or obtain additional financing under terms that may be less favorable than the current bank credit agreement.

EFFECT OF YEAR 2000

The Company has information system improvement initiatives in process that include both new computer hardware and software applications. The new system is expected to be operational by late 1998 and will be year 2000 compliant. The estimated cost of the project is expected to be in the $7 to $10 million range with the majority of costs previously expended.

As with any operation that relies heavily on computer technology, the risk that the Company, its major customers and or its major vendors do not correct year 2000 computer issues, could have an adverse effect on the Company's future results of operations, financial condition and liquidity.

Since the Company's computer systems will be year 2000 compliant in the near term, and management believes its major vendors and customers systems will be year 2000 compliant, it currently has no contingency plans. Should the Company's future evaluation of its systems and the systems of its major vendors and customers prove otherwise, the Company will establish contingency plans as necessary.

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

FORWARD-LOOKING STATEMENTS

From time to time, in this report and in other written reports and oral statements, references are made to expectations regarding future performance of the Company. Examples include, but are not limited to, statements as to expectations, beliefs and strategies, future earnings, revenue growth, and sales expansion opportunities. These "forward-looking statements" are based on currently available competitive, financial and economic data and the Company's operating plans, but they are inherently uncertain. Investors must recognize that events could turn out to be significantly different from what is expected. Differences from expectations in the factors listed below, among others, could affect the Company's financial performance in the future and could cause actual results to differ materially from those expressed or implied in such forward-looking statements. These factors, which include changes in both domestic and global assumptions and expectations are, among others: overall economic conditions; interest rates; demand for services in the freight and passenger rail industry; consolidations in the rail industry; demand for the Company's products and services; product mix; gains and losses in market share; demand for freight cars, locomotives, passenger transit cars and buses; industry demand for faster and more efficient braking equipment; continued outsourcing by the Company's customers; governmental funding for some of the Company's customers; future regulation/deregulation of the Company's customers and/or the rail industry; successful research and development; success in developing, marketing and delivering new products; the Company's ability to complete expected sales; cancellation of orders; labor stability; integration of recent acquisitions; completion of additional acquisitions; changes in expected level of capital expenditures; continued bank financing; warranty claims; environmental laws; lawsuits; and other factors identified within this Form 10-Q and other filings with the Securities and Exchange Commission. Such statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibit No. 27 "Financial Data Schedule" as of and for the nine months ended September 30, 1998 is filed herewith.

There was a Current Report filed on Form 8-K on October 20, 1998 for the purpose of reporting the October 5, 1998 acquisition (Item 2) of the railway electronics business of Rockwell Collins, Inc.

SIGNATURES

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

WESTINGHOUSE AIR BRAKE COMPANY

By: /s/ ROBERT J. BROOKS

Robert J. Brooks
Chief Financial Officer

Date: November 6, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM WESTINGHOUSE AIR BRAKE COMPANY'S CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

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9-MOS
DEC-31-1997
JAN-01-1998
SEP-30-1998
9,833
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110,880
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22,284
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(2,730)
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1.19