

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, 1997

COMMISSION FILE NUMBER 1-13782

WESTINGHOUSE AIR BRAKE COMPANY
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (State or other jurisdiction of incorporation or organization)	25-1615902 (IRS Employer Identification No.)
1001 AIR BRAKE AVENUE WILMERTING, PENNSYLVANIA 15148 (Address of principal executive offices)	(412) 825-1000 (Registrant's telephone number)

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

(TITLE OF CLASS) -----	(NAME OF EXCHANGE ON WHICH REGISTERED) -----
Common Stock, par value \$.01 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

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

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

As of February 27, 1998, 33,704,200 shares of Common Stock of the registrant were issued and outstanding, of which 8,751,531 shares were unallocated ESOP shares. The registrant estimates that as of February 27, 1998, the aggregate market value of the voting shares held by non-affiliates of the registrant was approximately \$329.1 million based on the closing price on the New York Stock Exchange for such stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on May 26, 1998 are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

GENERAL

Westinghouse Air Brake Company ("WABCO" or the "Company") is North America's largest manufacturer of value-added equipment for locomotives, railway freight cars and passenger transit vehicles. WABCO is headquartered in Wilmerding, Pennsylvania and operates subsidiaries primarily in the United States, Canada, United Kingdom, France, Australia and Italy. The Company's products are sold to the original equipment manufacturer (OEM) market and the aftermarket. Products are intended to enhance safety, improve productivity and reduce maintenance costs for its customers. The Company believes it maintains a market share for its primary braking related equipment in excess of 50% in North America and a significant market share for its other principal products. Because of its large market share, breadth of product lines and 130-year history in the industry, the Company believes its products are widely installed in locomotives, freight cars and passenger transit vehicles throughout North America.

In addition to its product offerings, the Company believes it has a significant presence in providing outsourced value-added services to the railroad and passenger transit aftermarkets, operating ten service and upgrade sites in the United States and Canada.

Demand for the Company's products and services is largely driven by use of railroads as a mode of shipment as well as government spending and investment in infrastructure for the passenger transit market.

STRATEGY

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.

INDUSTRY OVERVIEW

Rail traffic is a key factor underlying the demand for the Company's products. Overall, rail traffic is affected by growth in total intercity freight and passenger traffic and by rail's share of that traffic. Intercity freight traffic is a function of gross national product. Following World War II, rail's share of intercity freight traffic began to fall. This decline accelerated with the completion of the Interstate Highway System in the 1960s which, together with increases in permitted truck weights and sizes, allowed interstate truckers to compete much more effectively for manufactured goods and merchandise traffic. As a result, railroads experienced major diversion losses to trucks in most of their non-bulk segments. Increased demand for coal and export grain, two areas with limited truck competition, partially offset these losses in the 1970s. Reflecting the industry's efforts to stem these trends, merger activity in the 1980s generally involved railroads with parallel systems, with the intent of achieving immediate cost reductions for the merged railroads by eliminating overlapping capacity through the closing of branch lines and the reduction of rolling stock.

The Staggers Rail Act and the National Transportation Act of 1987 deregulated freight rates and services in the United States and Canada in 1980 and 1987, respectively, resulting in steadily decreasing rail rates. This decrease in rates caused rail traffic to grow significantly and spurred railroads to pursue more aggressive programs to improve operating efficiency. Both of these trends positively affected demand for the Company's products. Throughout the 1980s and into the 1990s, many railroads pursued multi-year programs to consolidate, streamline and strengthen their operations through equipment modernization, higher asset utilization, reducing surplus employees, implementing state-of-the-art technologies and systems and other improvements. The drive for efficiency has prompted railroads to make substantial capital outlays for new and upgraded equipment that can improve train performance and reduce labor costs. Automation has become an integral part of railroads' cost reduction programs, as evidenced by the use of end-of-train monitors, such as those produced by the Company's electronic group, which have permitted railroads to run trains without manned cabooses. Railroads, through the use of newer products and technology, have the flexibility to run longer trains, thereby achieving lower labor costs and higher worker productivity. Railroads' desire to achieve efficiency has thus created a demand for more efficient and faster braking equipment as well as for other products that can improve the reliability and performance of locomotives and freight cars. Management believes the Company is well positioned to play a significant role in this trend.

More recently, rail traffic has increased due to the growth in intermodal traffic and strong demand for low sulfur coal from the western United States prompted by the Clean Air Act Amendments of 1990. In addition, labor agreements and increased efficiencies have created a more competitive cost structure, enabling the railroad industry to increase utilization of freight cars and locomotives and to achieve market share gains in intercity freight shipments. Revenue Ton-miles have increased from approximately 919 billion in 1980 to over 1.4 trillion in 1997. During recent years, railroad traffic in the United States has increased significantly, particularly intermodal freight traffic, which grew at

the rate of 8% to 14% per year through 1994. Intermodal traffic declined slightly in 1995 but has increased modestly since that time.

Management believes that the railroads' share of intercity freight traffic will continue to grow due to the factors discussed above as well as lower freight rates following the industry deregulation, streamlined services, and a shift in railroads' focus to capitalize on their economies of scale in the handling of bulk commodities such as coal, grain, ores, lumber and chemicals. In addition, in recent years, a nationwide shortage of truck drivers has caused trucking companies to increase their use of railway intermodal services in order to meet their shipping commitments.

In contrast to the railroads' 1980s merger activity, the goal of which was to effect cost reductions, railroad merger activity in the 1990s has been characterized by a focus on geographic expansion and growth. To build and improve traffic, the industry has recently experienced a series of mergers, restructurings and divestitures such as the combination of Union Pacific and Southern Pacific as well as Burlington Northern and Santa Fe. The five major Class I Railroads in the United States have concentrated on their core, long-haul routes while divesting their low-density branch lines to smaller and more cost-efficient regional freight operators. The resulting effect for both the long-haul carriers and the regional operators has been higher traffic density, permitting greater asset utilization, efficiency improvements through investment in new and upgraded equipment, and more extensive use of intermodal shipping to provide customers with a "seamless delivery" system combining both rail and truck transport--all of which have a secondary effect of ultimately reducing operating costs for the railroads.

The Company believes that increased demand for its products will also result from expanding international sales. Prior to January 1995, the Company's sales were largely restricted to the North America market under a pre-existing agreement with an affiliated company. The Company is now placing an increased emphasis on the international opportunities. Sales outside North America represented approximately 12% of revenue in 1997 compared with 3% in 1994. WABCO's products are sold internationally directly or through licensees or agents in Japan, South America, Europe, South Africa, Korea, Taiwan, Thailand, Malaysia, India, Pakistan, Australia and China. China in particular is viewed by management as a potential growth market for the Company because of its rapidly expanding economy, the attractiveness of railway as a primary transportation mode for China's goods and people and the compatibility of China's railroads with North American-type technology.

PRODUCTS AND MARKETS

The Company's products and services are delivered through the following five broad divisions with sales as indicated:

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31	
	1997	1996
Electronics.....	\$ 73,615	\$ 66,883
Freight Car.....	195,200	192,106
Transit.....	174,280	96,195
Locomotive.....	50,137	36,915
Friction & Other.....	71,209	61,413
	-----	-----
Net sales.....	\$564,441	\$453,512

Note: Prior year amounts have been reclassified, where necessary, to conform to the current year presentation.

The Company's operating units consist of small strategic business units designed to achieve maximum operating efficiency, flexibility and customer responsiveness. These units generally have fewer than 400 employees and are responsible for their own engineering, manufacturing and customer relationships. Marketing, sales and certain administrative responsibilities are based at the Company's headquarters in Wilmerding, Pennsylvania. The Company believes that this decentralized operating structure enables it to provide timely, individualized service to the segments of the railway market serviced by the Company.

ELECTRONICS

Pulse Electronics is the headquarters for the Company's electronics product line. In anticipation of the trend towards merging pneumatic and electronically controlled products, the Company created the Integrated Railway Products Group in 1996. Through this group, WABCO delivers high-quality, hardened electronics to the railroad industry in the form of on-board systems and braking for locomotives and freight cars. The technologies have worldwide applications and provide the flexibility to adapt to the specifications of a particular country.

Through acquisitions (most notably Pulse Electronics) and internal product development, the Company has endeavored to reduce the adverse effect of a

possible downturn in new locomotive build orders and has taken advantage of the trend of increasing the electronic content in each locomotive. The Company's position as a market leader for traditional pneumatic braking equipment for new locomotives over the past 5 to 10 years has also provided it with a large installed base for spare parts, retrofit and upgrade sales.

The Company's new product development effort has focused on electronic technology for brakes and controls, and over the past several years, WABCO has introduced a number of significant new products including the EPIC(R)

Electronic Brake, PowerLink(TM), Compressor Aftercoolers, Train Trax(TM), Trainlink(TM), Train Sentry III(R), Fuellink(TM) and Armadillo(TM).

As railroads replace older locomotives and continue to look for ways to be more competitive with trucking in the freight hauling market, through new or upgraded technologically advanced equipment, they have placed an increased emphasis on productivity and efficiency. This emphasis has manifested itself in two significant trends: (1) alternating current ("AC") locomotives, which are more powerful than their direct current ("DC") predecessors, are rapidly gaining industry acceptance, and (2) the electronic content per locomotive, including electronic brakes, monitoring devices and diagnostics, is increasing. Two AC locomotives are powerful enough to do the work of three DC locomotives (while this implies a declining order rate for replacements, it is uncertain whether this will take place); electronic devices improve reliability, safety and productivity by performing work that would have otherwise been done more slowly and at a greater cost by manual labor. The Company believes that with its combined pneumatic and expanding electronic technology capabilities, it is uniquely positioned for leadership in the next generation of electronic-pneumatic technology in the locomotive market.

FREIGHT CAR

The Company's freight car related production operations are located in Stoney Creek, Ontario, and Chicago, Illinois. Net sales for typical freight cars can vary considerably based upon the type and purpose of the freight platform with articulated or intermodal cars generally having the highest WABCO content. Total freight car product line sales in 1997 were \$195.2 million.

The Company's freight car operations manufacture the following freight car products: brake control valves and related components, truck mounted brakes, empty load sensing equipment, draft gears, hand brakes, slack adjusters and articulated car connectors. Approximately 60% of the OEM sales of freight car products are air brake equipment, with draft gears accounting for 17%, and hand brakes and slack adjusters accounting for 10%. Production of approximately 60% of the Company's freight products takes place at the Stoney Creek facilities, with the remainder produced primarily in Chicago. Rubber products and brake shoes used in North American freight operations are manufactured in Greensburg, PA and Laurinburg, NC, respectively.

The Company's traditional freight products include the ABDX Freight Brake Valve, the Mark Series draft gears and hand brakes and slack adjusters. The Company actively pursues the development of new freight products exemplified by the Automated Single Car Tester, the first computerized freight air brake tester designed to reduce time and cost. In addition, during the past several years the Company has introduced ELX(TM) Empty Load Equipment, TMX(R) Truck Mounted Brake Assembly, SAC-1(TM) Articulated Coupler, slackless drawbar and AP Cobra(R) Brake Shoe.

The Company's new products development program provides it with a platform of product upgrades which allows it to further increase its aftermarket presence. Major upgrade product offerings for freight cars include ABDX Remanufactured Control Valves and stabilization and vibration protection upgrades.

New car deliveries in 1997 were 50,396 compared with 57,877 in 1996; 1997 new car orders totaled over 88,000, their highest level since 1978. The average age of the existing fleet, at approximately 18 years, is at an all time high.

The Company operates five freight service centers located near major railroad customers: Chicago, IL; Columbia, SC; Kansas City, KS; Vacaville, CA; and Stoney Creek, Ontario. The railroads began significantly outsourcing repairs in 1985, and the Company has been successfully aggressively pursuing repair business from railroad customers. The Company expects that the potential for growth of this business is substantial as railroads seek to outsource increasing amounts of their repair work. Outsourcing provides a less expensive, more responsive alternative to railroads' traditional in-house repair work. The Company's repair facilities have been established with a minimum of fixed overhead costs in order that they can be easily moved and/or expanded as necessary to match the new demands from the railroads. Management believes that the current service center network has substantial room for additional growth without significant capital costs.

The Company provides replacement parts for all of its products and equipment and believes end-users should replace broken or worn parts with parts from the original equipment manufacturer due to the high potential liability risks related to the critical nature of these products. The Company's rubber components are widely used as replacement parts for brake valve repair in the railroad industry. The Company's rubber diaphragms and gaskets are made from unique rubber compounds providing superior durability and performance. Historically, replacement parts and upgrades have accounted for approximately 40% of the Company's freight sales.

In the OEM market, the Company's freight products are sold to all major North American freight car builders. Principal customers include Trinity Industries, Inc., Union Tank Company, Johnstown America Corp., The Greenbrier Companies, ACF Industries, Inc., Thrall Car Manufacturing Co. and National Steel Car, Ltd. Replacement parts are sold primarily to railroads and other car owners for their

in-house maintenance programs. These customers include all major railroads in North American and a number of private fleet owners including TTX Company and GE. Virtually all fleet owners and OEM customers rely on the Company for supply of products.

PASSENGER TRANSIT

The Company's passenger transit operations produce various products for passenger transit applications at its dedicated facilities in Spartanburg, SC, Niles, IL, Montreal, Canada, the United Kingdom and Italy. Total passenger transit product line sales in 1997 were \$174.3 million. As part of the Company's strategy to expand its passenger transit product offerings and international sales, WABCO completed in 1997 the acquisitions of Stone Safety Service Corporation and Stone U.K. Limited (collectively "Stone"), the heavy rail air conditioning business of Thermo King Corporation ("Thermo King"), and H.P. s.r.l. ("HP") of Italy. Stone and Thermo King provide significant presence in the rail industry air conditioning business and HP is a leading supplier of door controls for transit rail cars and buses in Italy.

Net sales in the passenger transit business increased primarily as a result of the 1996 acquisition of Vapor Corporation, Vapor U.K. and Vapor Canada, Inc. ("Vapor") which significantly enhanced the Company's position in the passenger transit market. Vapor is the leading North American supplier of passenger transit door components for both rail and rubber tire transit vehicles and has significantly increased the Company's dollar content per car. Additionally, the Company believes that it will be able to increase significantly Vapor's aftermarket sales that approximate 20% of sales. As the Company participates in the cyclical upswing in the passenger transit market over the next 5 to 10 years, it will continue to benefit from its increasing installed base that will provide a solid foundation for future replacement parts and upgrades.

In December 1997, WABCO secured contracts valued at approximately \$150 million for a 1,080 combined car order for the Metropolitan Transportation Authority/New York City Transit Authority. WABCO will supply all braking, door activation, coupling and certain other equipment for rapid transit cars. Product shipments will commence with prototypes beginning in 1998 with scheduled contract deliveries over the three-year period 1999 through 2001.

Substantially all of the Company's principal passenger transit products are engineered to customer specifications. Consequently, there is less standardization among the Company's transit products than there is with its freight and locomotive products. The Company views its transit business as being comprised of three distinct segments: aftermarket sales of replacement parts, new products (upgrades) for existing vehicles and OEM sales. The first two segments constituted more than 40% of the Company's traditional transit sales with the remainder consisting of OEM sales. Because the market for OEM sales has been at a cyclical low during the past several years, the Company expects that the OEM sales market presents an opportunity for improved growth during the next several years. The overall market for replacement parts and upgrades is relatively stable because the installed passenger transit vehicle base in the United States and Canada has remained constant at approximately 20,000 vehicles (based on the Company's estimates). Currently, nearly 80% of the Company's passenger transit division's total sales are in the brakes, brake controls, couplers and door product lines.

The Company's principal transit products include electronic brake equipment, pneumatic control equipment, air compressors, tread brakes and disc brakes, couplers, collection equipment, overhead electrification, monitoring systems, wheels, climate control and door equipment and components.

Replacement parts constitute the largest requirement to maintain a transit fleet. The Company administers its replacement parts business from its facilities in Spartanburg, SC; Niles, IL; Hackensack, NJ; Stoney Creek, Ontario, Montreal, Quebec and Dartford, England. The replacement parts organization offers advanced concepts in services, including the packaging of all parts needed to perform an overhaul or "kitting." The Company's replacement parts are sold primarily to in-house repair shops and transit authorities.

The Company's passenger transit and service centers are located near major transportation centers, including Chicago, IL; Atlanta, GA; Sun Valley, CA; Yonkers, NY; Stoney Creek, Ontario and Montreal, Quebec. Repair cycles for passenger transit vehicles vary by transit authority. Most authorities, however, have instituted preventative maintenance programs so that at fixed periods within the life cycle of the equipment they perform major overhauls and renewal of the equipment. The Company believes it has substantial opportunities to increase sales to the passenger transit repair market as a result of increased maintenance programs and more extensive outsourcing of repair work.

The Company's products are installed in virtually every major transit system in North America including AMTRAK, Canada's Via Rail, and the transit systems serving the greater New York City area, Atlanta, Boston, Chicago, Dallas, Los Angeles, Philadelphia, San Francisco, Toronto and Washington, D.C. The Company's OEM products are sold to the major worldwide passenger transit manufacturers including Bombardier, Inc., Kawasaki Rail Car Inc., Hitachi Limited, Siemens AG, GEC Alsthom and Adtranz.

LOCOMOTIVE

WABCO's locomotive operations, based in Wilmerding, Pennsylvania, had sales of \$50.1 million in 1997. The Company's locomotive operations manufacture air brake equipment, compressors (which are located on the locomotive and supply the air needed to run the braking system throughout an entire train), air dryers, slack adjusters, brake cylinders, and monitoring and control equipment used to control the brakes and related equipment on each of the freight cars being pulled. Historically, the Company's most significant locomotive products have been the 26-C and 30-A pneumatic control equipment and air-cooled compressors. These braking components and related air-cooled compressors are used in virtually the entire installed base of North American locomotives, and the Company currently is the primary supplier of these components.

According to industry estimates, the outlook for the number of locomotive builds over the next few years is expected to be relatively consistent. The average age of the locomotive fleet has increased dramatically since 1980, and approximately 36% of the 19,000 locomotives in service are at least 20 years old. Industry analysts estimate that an average locomotive has a life span of 20 to 30 years.

The Company has expanded its locomotive repair services in response to railroad restructuring and gradual elimination of in-house repair services. Locomotive service centers are operated in Wilmerding, PA; Kansas City, KS; Vacaville, CA; and Columbia, SC. The Company believes demand for locomotive repair services will continue to grow as more railroads choose to eliminate their own shops in favor of services and proprietary product upgrades offered by the Company. In addition, as new diagnostics, future enhancements and technological upgrades become available for the control computers of the EPIC(R) 3102 Electronic Brakes or the Pulse Armadillo(TM), the Company believes many of its customers will opt to upgrade or add to their existing system.

The customers for the Company's locomotive OEM products are large North American locomotive manufacturers, including General Electric Company ("GE") and General Motors Corporation ("GM"), as well as all major Class I railroads. The Company's brake systems are currently installed on new locomotives manufactured by both GE and GM. The Company's compressors are currently installed on virtually all new GE locomotives. The Company's aftermarket replacement parts are sold primarily to the railroads.

FRICTION AND OTHER

The Company's friction products operations are in Laurinburg, NC, Australia and France in addition to joint ventures in India. Friction products are sold as original equipment and as aftermarket brake shoe replacements primarily to the Company's freight, transit and locomotive markets. The 1996 acquisition of Futuris Industrial Products Pty of Australia ("Futuris") enabled the Company to add a complementary product line of low- and medium-friction products.

WABCO's other operations consist primarily of the manufacture and sale of industrial rubber products and iron foundry products and metal finishing. The Company's rubber products are particularly well suited to industrial applications requiring unique compounds, which perform well under harsh conditions. The rubber products industry is fragmented, with numerous small to medium-sized participants. Demand for industrial rubber products by third parties amounted to one-third of output and has been increasing. In response, the division opened a new plant in 1994 in Ball Ground, GA to supply the increasing demand and expanded the plant's capacity in 1995. WABCO's iron foundry located in Ontario, Canada manufactures complex ductile and grey iron castings requiring numerous cores and precise alloy composition requirements. The foundry also produces complex castings for non-railway applications, including components for manufacturers such as Caterpillar, Inc. and Detroit Diesel Corporation. The Company's Thermo Sealed division provides metal finishing and processing services, principally to the automotive industry. Thermo Sealed has perfected a thermal deburring technique for cleaning metal parts.

INTERNATIONAL

WABCO's products are sold through licensees and agents in Japan, South America, Europe, South Africa, Korea, Taiwan, Thailand, Malaysia, India, Pakistan and The Peoples' Republic of China. Other than Canada, the Company's international sales currently comprise approximately 12% of net sales compared to 9% a year ago and 4% in 1995. In Japan, the Company has long-standing license relationships with NABCO (formerly Nippon Air Brake Company) and Mitsubishi Electric Company and in Australia with Westinghouse Brake Australia Limited. In Europe, the Company's products are sold to a limited extent through SAB WABCO Holdings B.V. ("SAB WABCO"), while friction products are sold directly through a subsidiary of the Company. The Company believes that international sales represent a significant opportunity for further growth.

The Company is seeking to expand its international sales in each of its principal product lines through joint ventures with railway suppliers having a strong presence in local

markets and through selected acquisitions. Due to differences in rail equipment requirements and other factors, the Company believes that its best opportunities for increased international sales currently are in areas of the world outside Europe and Japan.

SAB WABCO has granted the Company a license to manufacture and sell certain brake products in the United States, Canada and Mexico. The term of the license extends to 2003. A component of the Company's long-term international strategy is its right of first refusal, subject to certain exceptions, to purchase SAB WABCO if prior to December 31, 1999 the current owner of SAB WABCO decides to sell more than 50% of its interest in SAB WABCO to a third party. There can be no assurance, however, that the Company will be able to acquire SAB WABCO.

Management believes that The People's Republic of China represents an especially attractive market opportunity for the Company and has opened a sales office in Beijing. This market is attractive, in part, because it utilizes North American/AAR-type railroad technology. The Company's products are installed on over 425 locomotives currently in use in China, giving it a base from which to expand future sales. The Company believes that it will be able to sell specific high technology braking products not available from Chinese manufacturers, such as ELX Empty Load Equipment, DECELOSTAT(R) microprocessor based slip-slide equipment and Mark Series draft gears.

Management believes that friction products represent an immediate opportunity for substantial increased international sales. WABCO has developed composition materials suitable for use on most rail systems worldwide. WABCO believes that its technological advantage and overall cost competitiveness in this product line should enable it to penetrate international markets. The Company intends to expand its direct European sales of friction products through its subsidiary, Cobra Europe, S.A., and to seek other outlets and distributors. Through the acquisition of Futuris, the Company significantly expanded its sales to Pacific Rim countries. In addition, in October 1996 WABCO, through Futuris, established a manufacturing and distribution joint venture, Pioneer Friction Products, to provide brake shoes for the Indian market. In the fourth quarter of 1997, WABCO entered into a second joint venture located in India to produce low friction brake shoes for the Indian Railways.

MANUFACTURING

Management believes strongly in its proven Kaizen (continuous improvement) technique, which has been a major force in improving manufacturing processes throughout the Company. Kaizens involve large-scale collaborative sessions of shop floor employees, management, and, frequently, customers. Kaizens provide a means for the Company, despite its decentralization and lean management structure, to identify and implement the best manufacturing practices utilizing demand-flow cell methodology and to promote a common corporate culture. Since initiating the Kaizen approach in 1991, the Company has conducted regular periodic formal Kaizens and over 400 projects resulting in manufacturing and other functional improvements. The Company is continuing the Kaizen process on a monthly basis, rotating through each of its plants. WABCO productivity measures have benefited, in part, from Kaizen as evidenced in a more than 33% increase in inventory turnover and an almost doubling of revenue per employee since 1990.

On a more regular basis than the Kaizens, the Company's Total Quality Improvement Program ("TQIP") involves employees at all levels of the Company to address quality problems as they arise and resolve them quickly. Management believes that both the Kaizens and TQIP have and will continue to have a significant positive impact on the quality of the Company's products, as well as productivity and responsiveness to customer needs.

Most of the Company's manufacturing facilities are ISO 9001 certified facilities. The ISO rating is an international standard developed to ensure that engineering and manufacturing processes are at a high level of competency.

The Company has received numerous quality awards and certifications from its customers, including the Union Pacific Total Supplier Quality Award, General Motors Mark of Excellence, CSX Quality Management System Award, Conrail Certified Quality Supplier Award, National Association of Purchasing Managers Quality Assurance Program Award and annual TTX Excellent Supplier Awards.

The Company will continue its efforts to maintain its position as a low cost producer through the increased utilization of demand-flow cells and continued focus on increased productivity. Demand-flow cells, consisting of one or more employees, operate in conjunction with other cells to manufacture products when required by the customer. The production process is streamlined, inventory on hand is minimized, work force availability is maximized, and quality control is integrated into each major manufacturing step instead of limited to one final inspection of the finished product. The Company's use of demand-flow cells has led to improved customer service, increased inventory turnover rates, quickened response to changing market needs, improved quality control, higher productivity and reduced requirements for working capital and manufacturing and warehouse space.

The Company's manufacturing processes also benefit from the internal production of some of the key components

required for its products. The Company produces substantially all of its requirements for rubber products and complex iron foundry products and also utilizes Thermo Sealed for certain metal finishing work. This vertical integration contributes to overall cost control, quality maintenance and improvement and customer responsiveness. The Company believes that this vertical integration also enables the Company to adjust capacity to correspond to product development cycles more quickly and shortens new product cycle time.

ENGINEERING AND DEVELOPMENT

In furtherance of its strategy of using technology to develop new products, the Company is actively engaged in a variety of engineering and development activities. For the fiscal years ended December 31, 1997, 1996 and 1995, the Company incurred costs of approximately \$24.4 million, \$18.2 million and \$14.6 million on product development and improvement activities (exclusive of manufacturing support). Such expenditures represented 4.3%, 4.0% and 3.4% of net sales for the same periods, respectively. From time to time, WABCO conducts specific research projects in conjunction with universities, customers and other railroad product suppliers.

The Company's engineering and development program is largely focused upon new braking technologies, with an emphasis on the application of electronics to traditional pneumatic systems. Electronic actuation of braking has long been a part of the Company's transit product line but interchangeability, connectivity and durability have presented problems to the industry in establishing electronics in freight railway applications. Efforts are under way to develop both hard-wired and radio-activated braking systems. The Company is currently developing electro-pneumatic braking equipment for freight cars that include on-board electronics to monitor braking performance and communicate data to the locomotive.

SALES AND MARKETING

In North America, the Company uses its sales force to market its products and services directly to end-users (railroads, transit authorities, utilities and leasing companies) and OEM locomotive and freight car builders. Although the Company's marketing personnel are based primarily in Wilmerding, the Company maintains regional sales offices throughout the United States and Canada. The use of regional sales offices permits the Company's field sales force to maintain close and frequent contact with customers. The Company supplements its sales efforts with the technical support of its engineering staff with respect to specific products, which advises on product design, cost estimation and bid preparation. The sales force can also request the assistance and involvement of the product managers for each major product line who can work directly with a customer to address specific customers' needs. Certain members of senior management also actively participate in marketing efforts which the Company believes has resulted in the development of close relationships with the purchasing managers, end-users of the products and senior management of many of the Company's principal customers. Marketing efforts consist of ongoing personal visits to customers' facilities, participation in industry and customer-sponsored seminars and trade conventions, and traditional advertising and public relations activities.

CUSTOMERS

In 1997, approximately 50% of the Company's net sales were generated from the "aftermarket" sale of replacement parts, repair services and upgrade work purchased by end-users of rail vehicles such as railroads, transit authorities, utilities and leasing companies. The remaining sales are made directly to OEM manufacturers of locomotives, freight cars and passenger transit vehicles.

The Company has developed and fostered long-term relationships with major purchasers of air brakes and related products, particularly manufacturers of locomotives, freight cars and passenger transit vehicles. The Company has also fostered relationships with the end-users of its products, principally owners and operators of locomotives, freight cars and passenger transit vehicles. Long-term customers are particularly important, given the limited number of buyers and purveyors of air brakes. Freight car end-users include railroads, utilities, leasing companies and major industrial companies.

Although a small number of customers often represent a significant portion of the Company's net sales, no one customer represented more than 10% of the Company's sales in 1997. A significant portion of the Company's OEM locomotive and freight car sales is the result of specifications by end-users. In the passenger transit market, almost all OEM sales are the result of specifications established by individual transit authorities and passenger railroads. In all product lines, the Company vigorously endeavors to have end-users adopt specifications that are compatible with the Company's products.

INTELLECTUAL PROPERTY

The Company applies for patent and trademark protection where it believes the expense of doing so is justified. The Company has numerous U.S. patents, patent applications pending and trademarks as well as foreign patents and trademarks throughout the world. WABCO attempts to protect its intellectual property by legal action in situations where it feels such action is warranted. The Company also

relies on a combination of trade secrets and other intellectual property laws, nondisclosure agreements and other protective measures to establish and protect its proprietary rights in its intellectual property.

Certain trademarks, among them the name WABCO(R), were acquired or licensed by the Company from American Standard Inc. in 1990 pursuant to its acquisition of the North American operations of the Railway Products Group of American Standard (the "1990 Acquisition"). The Company owns or has the right to use all intellectual property rights in these trademarks to the extent such trademarks are used in connection with products and fields of use (businesses) acquired in the 1990 Acquisition. The intellectual property rights in the trademark WABCO for use other than in railway related applications were retained by American Standard.

The Company is a party, as licensor and licensee, to a variety of license agreements. Although these license agreements collectively are valuable, and the Company is very proud of having had licensing arrangements with Japanese companies for 74 years, the Company does not believe that any single agreement, other than the SAB WABCO agreement discussed in the following paragraph, is of material importance to its business as a whole.

The Company and SAB WABCO entered into a license agreement (the "SAB License") in December 1993, pursuant to which SAB WABCO granted the Company a license to the intellectual property and know-how related to the manufacturing and marketing of certain disc brakes, tread brakes and low noise and resilient wheel products. The Company is authorized to manufacture and sell the licensed products in North America (including to OEM manufacturers located outside North America if such licensed products are incorporated into a final product to be sold in North America). SAB WABCO has a right of first refusal to supply the Company with bought-in components of the licensed products on commercially competitive terms. To the extent SAB WABCO files additional patent or trademark applications, or develops additional know-how in connection with the licensed products, such additional intellectual property and know-how are also subject to the SAB License. The Company may, at its expense, request the service of SAB WABCO in manufacturing, installing, testing and maintaining the licensed products and providing customer support. SAB WABCO is entitled to a free, nonexclusive license of the use of any improvements to the licensed products developed by the Company. If any such improvements are patented by the Company, SAB WABCO has the right to request the transfer of such patents upon payment of reasonable compensation therefor; in such cases, the Company is entitled to a free, nonexclusive license to use the patented product. The Company is required to pay a lump sum fee for certain licensed products as well as royalties based on specified percentages of sales. The license expires December 31, 2003, but may be renewed for additional one-year terms.

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

COMPETITION

The Company operates in a competitive marketplace. Price competition is strong and the existence of cost conscious purchasers of a limited number has historically limited WABCO's ability to increase prices. In addition to price, competition is based on product performance and technological leadership, quality, reliability of delivery and customer service and support. The Company believes that it is well positioned to succeed in its markets. The Company also believes that many of its products provide customers with opportunities to reduce existing maintenance costs and improve efficiency. The Company's principal competitors vary to some extent across its principal product lines. However, New York Air Brake Company, a subsidiary of the German air brake producer Knorr-Bremse AG (collectively, "NYAB/Knorr"), is the Company's principal overall OEM competitor. The Company's competition for locomotive, freight and passenger transit repair business is primarily from the railroads' and passenger transit authorities' in-house operations, as well as from Comet Industries and NYAB/Knorr.

SUPPLIERS

The Company actively purchases from over 400 suppliers. The Company has maintained an excellent relationship with its suppliers. In 1997, no single supplier accounted for more than 10% of total purchases made by the Company.

Approximately 90% of the Company's iron casting needs are provided by its wholly owned foundry in Canada, with the remainder provided by two other suppliers. Most of the rubber products and all of the friction products required by the Company are provided in-house by subsidiaries. The Company believes that its integrated manufacturing facilities provide it with strategic and competitive advantages.

BACKLOG

As of February 28, 1998, the Company had a total backlog of firm orders with an aggregate sales price of approximately \$400.1 million, compared to \$376.3 million as of December 31, 1997. Of the year-end 1997 amount, \$295.1 million was attributable to passenger transit products and the balance was attributable to railway and other products. Other than the transit market, backlog is not a significant component of the Company's business, and management believes it is not an important indicator of future business performance. Because of the Company's quick turnaround time, the Company's locomotive and freight customers tend to order products from the Company on an as-needed basis. Based upon industry data concerning freight and locomotive OEM backlog, the Company believes that demand for its products will remain reasonably strong. With respect to OEM passenger transit products, there is a longer lead time for car deliveries and, accordingly, the Company carries a larger backlog of orders.

EMPLOYEES

As of December 31, 1997, the Company had approximately 3,400 employees, approximately 1,000 of whom were unionized. Approximately 310 employees at the Freight Car facility in Ontario, Canada are represented by the National Automotive, Aerospace, Transportation, and General Workers Union (CAW-Canada). In March 1998, WABCO and CAW-Canada agreed to a three-year extension, through April 2001, of their labor contract. Approximately 235 employees at the Locomotive and Rubber Products division facilities in Wilmerding and Greensburg, Pennsylvania are represented by the United Electrical, Radio and Machine Workers of America. The union contract for these facilities extends through May 2001. Approximately 325 employees at the Company's foundry in Ontario, Canada are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (U.A.W.). A five-year union contract for this facility expiring in September 2002 was recently negotiated. Approximately 38 employees at the Futuris Industrial Products facilities in Australia are represented by Metal Trades Industry Association of Australia. Approximately 90 employees at the Vapor facility in Montreal, Quebec, Canada are represented by a local association. A five-year contract for this facility expires in March 2002. No significant work stoppages or significant labor problems have occurred since 1982. The Company considers its relationship with its employees to be good. The majority of non-union employees in the United States (approximately 1,400 employees) participate in the Company's Employee Stock Ownership Plan ("ESOP").

REGULATION

The Federal Railroad Administration ("FRA") administers and enforces federal laws and regulations relating to railroad safety. These regulations govern equipment and safety appliance standards for freight cars and other rail equipment used in interstate commerce. The Association of American Railroads ("AAR") also promulgates a wide variety of rules and regulations governing safety and design of equipment, relationships among railroads with respect to railcars in interchange and other matters. The AAR also certifies railcar builders and component manufacturers that provide equipment for use on railroads in the United States. New products generally must undergo AAR testing and approval processes. As a result of these regulations, the Company must maintain certain certifications with the AAR as a component manufacturer, and products sold by the Company must meet AAR and FRA standards.

ENVIRONMENTAL MATTERS

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 that its operations currently comply in all material respects with all of the various environmental laws and regulations applicable to its business; however, there can be no assurance that environmental requirements will not change in the future or that the Company will not incur significant costs to comply with such requirements.

Under the terms of the purchase agreement and related documents for the 1990 Acquisition, American Standard indemnified the Company for certain items including environmental claims. American Standard has indemnified the Company for any claims, losses, costs and expenses arising from (i) claims made in connection with any of the environmental matters disclosed by American Standard to the Company at the time of the 1990 Acquisition, (ii) any pollution or threat to human health or the environment

related to American Standard's (or any previous owner's or operator's) ownership or operation of the properties acquired by the Company in the 1990 Acquisition, which pollution or threat was caused or arises out of conditions existing prior to the 1990 Acquisition (limited to environmental laws in effect as of December 31, 1991), and (iii) any material claim ("Environmental Claim") alleging potential liability for the release of pollutants or the violation of any federal, state or local laws or regulations relating to pollution or protection of human health or the environment, for which American Standard has retained liability. Such indemnity covers investigatory costs only if the investigation is undertaken pursuant to a larger Environmental Claim and to the extent of American Standard's pro-rata liability for such larger Environmental Claim. American Standard has no obligation to indemnify for investigatory costs incurred by the Company independently or otherwise unrelated to an indemnifiable event. American Standard's indemnification obligations are limited to aggregate amounts in excess of \$500,000. The Company has exceeded this deductible. In addition, American Standard's indemnification obligation with respect to friction product related claims only extends to 50% of the amount claimed, up to a maximum of \$14 million (provided liability is asserted directly and solely against RFPC). The indemnification obligations with respect to third party claims survive until 2000, except that claims which are timely asserted continue until resolved. If American Standard should be unable to meet its obligations under this indemnity, the Company will be responsible for such items. In the opinion of management, American Standard has the present ability to meet its indemnification obligations.

The Company, through RFPC, has been named, along with other parties, as a potentially responsible party under the North Carolina Inactive Sites Response Act because of an alleged release or threat of release of hazardous substances at the "Old James Landfill" site in Laurinburg, NC. The Company believes that any cleanup costs for which it may be held responsible are covered by (i) the American Standard indemnity discussed above and (ii) an insurance policy for environmental claims provided by Manville Corporation, the former 50% owner of RFPC, in connection with WABCO's 1992 acquisition of Manville Corporation's interest in RFPC. Pursuant to the terms of the purchase agreement for the acquisition of Manville Corporation's interest in RFPC, Rocky Mountain International Insurance, Ltd., an affiliate of Manville Corporation, provided an insurance policy to cover any claims, losses, costs and expenses relating to, among other things, environmental liabilities arising from conditions existing at the former Manville site used by RFPC prior to the acquisition (limited to environmental laws in effect as of July 1992). This insurance policy is the sole remedy for the Company with respect to covered claims. The insurance policy survives until July 2002. Active claims for conditions existing prior to July 1992 will continue to be covered beyond July 2002. The aggregate limit of coverage under the insurance policy provided by Manville Corporation is \$12.5 million. The Company has submitted a claim under the policy for any costs of clean up imposed on or incurred by the Company in connection with the "Old James Landfill" and Rocky Mountain has acknowledged coverage under the policy, subject to the stated policy exclusions. In addition to the insurance policy provided by Manville Corporation, American Standard's indemnification obligations described above cover 50% of RFPC-related claims. The Company has received a demand from Johns Manville in the amount of \$161,000 which is alleged to represent the Company's share for closure of certain wastewater ponds at the Laurinburg, NC leased facility. The Company believes that this claim is also covered by the insurance policy and has submitted a notice of claim to Rocky Mountain. In January 1998, the Company discovered petroleum contaminated soils in the vicinity of the oil-water separator at the Laurinburg leased facility. The Company has filed a notice of claim requesting coverage under the insurance policy for clean up costs associated with removal of the contaminated soils, which the Company estimates will be less than \$30,000.

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

ITEM 2. PROPERTIES

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

LOCATION	PRIMARY USE	DIVISION	OWN/ LEASE	APPROX. SQ. FOOTAGE
Wilmerding, PA	Manufacturing/Service	Locomotive	Own	850,000(1)
Niles, IL	Manufacturing	Passenger transit	Own	355,300
Stoney Creek, Ontario	Manufacturing/Service	Freight	Own	189,170
Spartanburg, SC	Manufacturing/Service	Passenger transit	Lease	183,600
Wallaceburg, Ontario	Foundry	Freight	Own	127,555
Chicago, IL	Manufacturing	Freight	Own	111,500
St-Laurent, Quebec	Manufacturing	Passenger transit	Own	106,000
Laurinburg, NC	Manufacturing	Friction	Lease	105,000
Greensburg, PA	Manufacturing	Rubber	Own	97,830
Germantown, MD	Manufacturing/Service	Electronics	Own	80,000
Wetherill Park, NSW	Manufacturing	Friction	Lease	73,141
Burlington, Ontario	Manufacturing	Thermo Sealed	Own	46,209
Hackensack, NJ	Manufacturing	Passenger transit	Lease	36,400
Ball Ground, GA	Manufacturing	Rubber	Lease	30,000
Sassuolo, Italy	Manufacturing	Passenger transit	Lease	30,000
Burlington, Ontario	Manufacturing	Thermo Sealed	Own	28,165
Tottenham, VIC	Manufacturing	Friction	Lease	26,910
Kansas City, KS	Service Center	Freight/Locomotive	Lease	21,627
Vacaville, CA	Service Center	Freight/Locomotive	Lease	21,600
Winnipeg, Manitoba	Service Center	Freight/Locomotive	Lease	20,000
Dartford, UK	Manufacturing	Passenger transit	Lease	14,860
Columbia, SC	Service Center	Freight/Locomotive	Lease	12,250
Yonkers, NY	Service Center	Passenger transit	Lease	12,000
Chicago, IL	Service Center	Freight/Locomotive	Own	11,400
Sun Valley, CA	Service Center	Passenger transit	Lease	4,000
Atlanta, GA	Service Center	Passenger transit	Lease	1,200

(1) Approximately 250,000 square feet currently are used in connection with WABCO's operations.

The leases on the manufacturing facilities are long-term and generally include options to renew. The leases on the service centers are for three-year terms with renewal options.

ITEM 3. LEGAL PROCEEDINGS

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

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 which the Company believes will have a material adverse effect on its financial condition or results of operations. The Company historically has not been required to pay any material liability claims.

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

No matters were submitted to a vote of security holders of the Company during the fiscal quarter ended December 31, 1997.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain information with respect to the nine executive officers of the Company as of March 2, 1998.

NAME	AGE	OFFICE WITH THE COMPANY
William E. Kassling	54	Director, Chairman and Chief Executive Officer
Gregory T. H. Davies	51	President and Chief Operating Officer
Robert J. Brooks	53	Director and Chief Financial Officer
Emilio A. Fernandez	53	Director and Vice Chairman
Howard J. Bromberg	55	Vice President and General Manager, Locomotive and Molded Products
John M. Meister	50	Executive Vice President and General Manager, Transit Product Group
Mark C. Van Cleave	39	Vice President and General Manager, Cardwell Westinghouse
Timothy J. Logan	45	Vice President, International
George A. Socher	49	Vice President and Corporate Controller
Alvaro Garcia-Tunon	45	Vice President, Corporate Planning and Investor Relations

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

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

ROBERT J. BROOKS has been a director and Chief Financial Officer of the Company

since the 1990 Acquisition. From 1986 until 1990 he served as worldwide Vice President, Finance for the Railway Products Group of American Standard. Mr. Brooks is a director of Crucible Materials Corp.

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

HOWARD J. BROMBERG has been Vice President and General Manager, Locomotive and Molded Products since September 1995. From 1990 until September 1995, Mr. Bromberg served as Vice President and General Manager of the Company's Locomotive and Rubber Products Unit. From 1987 until 1990 he served as General Manager of the Locomotive/Rubber Products group of the Railway Products Group of American Standard.

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

MARK C. VAN CLEAVE has been Vice President and General Manager of the Company's subsidiary, Cardwell Westinghouse, since September 1995. In March 1998, he was named to the additional position of Senior Vice President--Freight Sales and Marketing. From 1993 until September 1995 Mr. Van Cleave was Vice President, Commuter and Coal Operations of Chicago & North Western Transportation Company. From 1992 until 1993 he was Assistant Vice President of Commuter \Operations thereof and from 1989 until 1992 he was General Superintendent of Maintenance Operations thereof.

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

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

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

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

The executive officers are elected annually by the Board of Directors of the Company at an organizational meeting, which is held immediately after each Annual Meeting of Stockholders.

PART II

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

The Common Stock of the Company is listed on the New York Stock Exchange. As of February 27, 1998, there were 33,704,200 shares of Common Stock outstanding held by 269 holders of record. The high and low sales price of the shares and dividends paid per share were as follows:

QUARTER	HIGH	LOW	DIVIDEND

1997			
Fourth.....	\$27.875	\$21.875	\$.01
Third.....	23.125	17.875	.01
Second.....	20.000	12.750	.01
First.....	14.250	12.250	.01

1996			
Fourth.....	\$13.000	\$10.625	\$.01
Third.....	13.125	10.250	.01
Second.....	14.125	10.750	.01
First.....	11.875	9.125	.01

ITEM 6. SELECTED FINANCIAL DATA

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

IN THOUSANDS EXCEPT PER SHARE AMOUNTS	YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
INCOME STATEMENT DATA:					
Net sales.....	\$564,441	\$453,512	\$424,959	\$347,469	\$285,274
Cost of sales.....	378,323	300,163	278,901	229,544	195,872
Gross profit.....	186,118	153,349	146,058	117,925	89,402
Operating expenses.....	96,143	73,631	56,756	44,287	39,871
Income from operations.....	89,975	79,718	89,302	73,638	49,531
Interest expense and other, net.....	29,385	26,070	30,793	11,184	10,052
Income before taxes, extraordinary item and change in accounting principle.....	60,590	53,648	58,509	62,454	39,479
Income taxes.....	23,327	20,923	23,402	25,613	13,378
Income before extraordinary item and change in accounting principle.....	37,263	32,725	35,107	36,841	26,101
Loss on early extinguishment of debt.....			(1,382)		
Cumulative effect of change in accounting principle.....					2,000
Net income.....	\$ 37,263	\$ 32,725	\$ 33,725	\$ 36,841	\$ 28,101
DILUTED EARNINGS PER COMMON SHARE:					
Income before extraordinary item and change in accounting principle.....	\$1.42	\$1.15	\$1.32	\$.92	\$.65
Loss on early extinguishment of debt.....			(.05)		
Cumulative effect of change in accounting principle.....					.05
Net income.....	\$1.42	\$1.15	\$1.27	\$.92	\$.70
Cash dividends per share.....	\$.04	\$.04	\$.01	--	--
Weighted average diluted shares outstanding.....	26,173	28,473	26,639	40,000	40,000

	AS OF DECEMBER 31,				
	1997	1996	1995	1994	1993
BALANCE SHEET DATA:					
Working capital.....	\$ 48,719	\$ 48,176	\$ 36,674	\$ 46,640	\$ 28,703
Property, plant and equipment, net.....	108,367	95,844	72,758	67,346	66,378
Total assets.....	410,879	363,236	263,407	187,728	175,625
Total debt.....	364,934	341,690	305,935	78,060	107,870
Shareholders' equity (deficit).....	(79,263)	(76,195)	(108,698)	46,797	11,008

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

OVERVIEW

Westinghouse Air Brake Company is North America's largest manufacturer of value-added equipment for locomotives, railway freight cars and passenger transit vehicles. The Company's primary manufacturing operations are in the United States and Canada and revenues have historically been predominantly from North America. In recent years, the proportion of international sales has increased.

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

1997 VERSUS 1996

SUMMARY RESULTS OF OPERATIONS

Dollars in millions, except per share	YEAR ENDED DECEMBER 31		Percent Change
	1997	1996	
Net income.....	\$ 37.3	\$ 32.7	14.1
Diluted earnings per share.....	1.42	1.15	23.5
Net sales.....	564.4	453.5	24.5
Income from operations.....	90.0	79.7	12.9
Earnings before interest, taxes, depreciation and amortization.....	114.9	102.0	12.6
Gross profit margin.....	33.0%	33.8%	--

Net income for 1997 increased \$4.6 million, or 14.1%, compared with 1996. Earnings per share increased 23.5% to \$1.42 per diluted share. Net sales for 1997 were \$564.4 million, reflecting a 24.5% increase compared to the prior year. The higher revenue base reflects the benefits associated with acquisitions and new products. Operating income and earnings before interest, taxes, depreciation and amortization increased in the comparison primarily due to revenue growth and related gross margins.

A number of significant events occurred in 1997 and 1996 that impacted the Company's results of operations and financial condition:

- -- The Company completed several strategic acquisitions that complement and enhance the mix of existing products and markets. Revenues from operations acquired in 1997 and 1996 totaled \$128.2 million in 1997 and accounted for \$85.5 million of the overall 1997 sales increase. Following is a summary of acquisitions completed in the past two years:
 - In May 1997, the Company purchased Stone. Stone is located in New Jersey and England, and is one of the world's leading suppliers of air conditioning equipment for the transit industry with an established product base in North America, Europe and the Far East.
 - On June 27, 1997 the Company acquired the heavy rail air conditioning business of Thermo King.

The aggregate purchase price for the Stone and Thermo King acquisitions was approximately \$7.7 million and was financed by utilizing the Company's revolving line of credit.
 - During July 1997, the Company acquired 100% of the stock of HP for a total purchase price of \$5.8 million, which included the assumption of \$2.3 million in debt. HP is a leading supplier of door controls for transit rail cars and buses in the Italian market.
 - In October 1997, WABCO purchased the rail products business and related assets of Sloan Valve Company for \$2.5 million. The acquired products included slack adjusters, angle cocks and retainer valves.
 - In September 1996, the Company acquired Vapor, a passenger transit door manufacturer, for \$63.9 million.
 - In January 1996, the Company acquired Futuris, an Australian friction products manufacturer, for a cash purchase price of \$15 million.
- -- In March 1997, an agreement was reached with one of the Company's major shareholders, Scandinavian Incentive Holding B.V. ("SIH"), whereby the

Company repurchased 4 million shares of its common stock held by SIH for \$44 million, or \$11 per share, plus \$2 million in fees. The Company and its bank group agreed to amend the Company's credit facility to increase the revolving credit availability from \$125 million to \$140 million and to waive the 1996 mandatory term-loan principal payment from excess cash flow.

In conjunction with this transaction, SIH also sold its remaining 6 million shares of the Company's common stock to a group of investors consisting of Vestar Equity Partners, L.P., Harvard Private Capital Group, American Industrial Partners Capital Fund II, L.P. and certain members of senior management.

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

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31	
	1997	1996
Electronics.....	\$ 73,615	\$ 66,883
Freight Car.....	195,200	192,106
Transit.....	174,280	96,195
Locomotive.....	50,137	36,915
Friction & Other.....	71,209	61,413
Net sales.....	\$564,441	\$453,512

NET SALES

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

GROSS PROFIT

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

OPERATING EXPENSES

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31		PERCENT CHANGE
	1997	1996	
Selling and marketing... General and administrative.....	\$25,364	\$18,643	36.1
Engineering.....	38,033	29,437	29.2
Amortization.....	24,386	18,244	33.7
Other expense (income).....	8,240	7,854	4.9
	120	(547)	NM
Total operating expenses.....	\$96,143	\$73,631	30.6

NM--not meaningful

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

INCOME FROM OPERATIONS

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

INTEREST EXPENSE

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

INCOME TAXES

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

1996 VERSUS 1995

SUMMARY RESULTS OF OPERATIONS

DOLLARS IN MILLIONS, EXCEPT PER SHARE	YEAR ENDED DECEMBER 31		PERCENT CHANGE
	1996	1995	
Net income.....	\$ 32.7	\$ 33.7	(3.0)
Diluted earnings per share.....	1.15	1.27	(9.4)
Net sales.....	453.5	425.0	6.7
Income from operations....	79.7	89.3	(10.8)
Earnings before interest, taxes, depreciation and amortization.....	102.0	108.1	(5.6)
Gross profit margin.....	33.8%	34.4%	--

NET INCOME

Net income for 1996 declined \$1.0 million to \$32.7 million compared with 1995. The lower income was due to a change in product sales mix, including lower sales in the freight market due to reduced OEM production and from increased spending to support additional engineering and international sales staffing. The higher operating costs more than offset revenue growth.

NET SALES

Net sales increased \$28.5 million to \$453.5 million in 1996 from \$425.0 million in 1995. The increase was primarily due to the 1996 acquisitions of Vapor and Futuris. Sales also benefited from a full year of the Pulse acquisition that was completed in the first quarter of 1995. Partially offsetting these positive factors were lower sales in the Company's freight car division due in part to a 5% decline in OEM production.

GROSS PROFIT

Gross profit increased \$7.3 million or 5%, to \$153.3 million in 1996 primarily due to higher sales volume. Gross margin, as a percentage of sales, declined slightly in 1996 to

33.8% versus 34.4% in 1995 primarily as a result of changes in product mix.

OPERATING EXPENSES

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31		PERCENT CHANGE
	1996	1995	
Selling and marketing...	\$18,643	\$13,047	42.9
General and administrative.....	29,437	22,791	29.2
Engineering.....	18,244	14,577	25.2
Amortization.....	7,854	6,160	27.5
Other expense (income).....	(547)	181	NM
Total operating expenses.....	\$73,631	\$56,756	29.7

NM--not meaningful

OPERATING EXPENSES

Total operating expenses increased \$16.9 million in the comparison and totaled \$73.6 million in 1996. The higher expense level was primarily due to the Futuris and Vapor acquisitions. In addition, expenses increased, in part, due to WABCO's expanded new product development initiatives and international marketing activities as well as increased corporate expenses for shareholder communication, legal and insurance costs.

INCOME FROM OPERATIONS

Operating income in 1996 was \$79.7 million versus \$89.3 million in 1995. The decrease was primarily due to higher operating expenses and amortization which more than offset the increased gross profit.

INTEREST EXPENSE

Total interest expense for 1996 was \$26.2 million, a decrease of \$4.8 million from 1995, primarily as a result of lower overall weighted average interest rates in 1996 and the reduced debt levels from the proceeds of the Company's IPO in June 1995.

INCOME TAXES

The Company's overall effective income tax rate declined to 39.0% in 1996 compared to 40.0% in 1995 due to lower effective state tax rates and the benefit of a Foreign Sales Corporation (FSC) established in 1996.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is provided primarily by operating cash flow and long-term borrowings. WABCO's operations generated cash flow totaling \$67.0 million, \$58.9 million and \$45.8 million in 1997, 1996 and 1995, respectively. Operating cash flow has been increasing primarily due to a combination of earnings growth and improved asset management. Gross capital expenditures were \$29.6 million, \$13.2 million, and \$16.2 million in 1997, 1996 and 1995, respectively. The majority of capital expenditures reflect spending for replacement equipment and as well as increased capacity and efficiency. In addition, in 1997 WABCO made significant investments in a new electronics technology development center. The Company expects capital expenditures in 1998 to approximate \$28 million.

The following table sets forth outstanding indebtedness of WABCO:

DOLLARS IN THOUSANDS	DECEMBER 31	
	1997	1996
Revolving credit notes.....	\$100,880	\$ 61,000
Term loan.....	145,500	163,700
Senior notes.....	100,000	100,000
Note payable--Pulse acquisition.....	16,990	16,990
Other.....	1,564	
	364,934	341,690
Less--current portion.....	32,600	29,700
	\$332,334	\$311,990

The Company's revolving credit and term loan borrowings have been made pursuant to a credit agreement, as amended (the Credit Agreement), with a consortium of commercial banks. The Credit Agreement provides for up to \$140 million of revolving credit loans, including letters of credit, and provided \$170.6 million of term loans, of which \$145.5 million was outstanding at December 31, 1997.

Credit Agreement borrowings bear variable interest rates indexed to common indexes LIBOR. The weighted-average contractual interest rate on Credit Agreement borrowings was 7.36% at year-end 1997. In order to reduce the impact of interest rate changes on this variable rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings over the term of the swap contracts. The interest rate swaps have an aggregate notional value of \$100 million and mature in 1998 through 2000. The interest rate swaps altered the weighted-average interest rate paid on borrowings under the Credit Agreement from 7.36% to 7.67% at year-end 1997.

Principal repayments of term loan borrowings are due in semi-annual installments until maturity in January 2002.

The Credit Agreement limits the Company with respect to declaring or making cash dividend payments and prohibits the declaration or making of other distributions whether in cash, property, securities or a combination thereof, with respect to any shares of the Company's capital stock. However, the Company is permitted to pay \$.01 per share quarterly dividends on the Common Stock, subject to certain conditions. The Credit Agreement contains various

other covenants and restrictions including: a limitation on the incurrence of additional indebtedness; a limitation on mergers, consolidations and sales of assets and acquisitions; other than sales of assets in the ordinary course of business; a limitation on liens; a limitation on certain debt payments; a limitation on capital expenditures; a minimum fixed charge coverage ratio; a minimum interest expense coverage ratio and a maximum leverage ratio.

The Company's senior notes, issued in June 1995, bear interest at the rate of 9.375% and mature in June 2005. The net proceeds of were used to prepay an additional portion of the term loans outstanding under the existing credit agreement. The notes are senior unsecured obligations of the Company and rank pari passu in right of payment with all existing and future indebtedness under (i) capitalized lease obligations, (ii) the Amended Credit Agreement, (iii) indebtedness of the Company for money borrowed and (iv) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which the Company is responsible or liable unless, in the case of clause (iii) or (iv), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are subordinate in right of payment to the notes.

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

As partial payment for the Pulse Acquisition, the Company issued the \$17.0 million Long-Term Pulse Seller Note, due January 31, 2004. Interest is payable semiannually and accrues until February 1, 1998 at the per annum rate of 9.5%; from February 1, 1998 until January 31, 2001, interest will accrue at the prime rate charged by Chase Manhattan Bank on December 31, 1997 plus 1%; and from February 1, 2001 until January 31, 2004, interest will accrue at the prime rate charged by Chase Manhattan Bank on December 31, 2000 plus 1%.

In 1997, WABCO completed the Stone, Thermo King and HP acquisitions for an aggregate purchase price of \$13.5 million in cash including \$2.3 million of assumed debt. In 1996, the Company acquired Vapor and Futuris for \$63.9 million and \$15 million, respectively. These transactions utilized borrowings for the purchase price. Also, in 1995 the Company acquired Pulse Electronics for \$54.9 million, consisting of \$20 million in bank borrowings, a \$17.0 million note payable and WABCO Common Stock valued at \$17.9 million at the time of the acquisition.

In March 1997, SIH sold its 10 million shares of WABCO Common Stock. The Company purchased 4 million shares at \$11 per share, and investors consisting of Vestar Equity Partners, L.P., Harvard Private Capital Group, American Industrial Partners Capital Fund II, L.P. and certain members of WABCO's management acquired the remaining 6 million shares at the same price. The Company financed the 4 million share repurchase through borrowings under its credit facility.

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

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 to fail to satisfy the Company's cash requirements, the Company may need to refinance its existing debt or obtain additional financing. There is no assurance that such new financing alternatives would be available, and, in any case, such new financing, if available, would be expected to be more costly and burdensome than the debt agreements currently in place.

EFFECT OF YEAR 2000

The Company has information system improvement initiatives under way which 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 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 are expensed as incurred. These expenditures are not expected to have a significant impact on the Company's future results of operations or financial position.

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-K 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.

EFFECTS OF INFLATION; SEASONALITY

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None

PART III

ITEMS 10 THROUGH 13.

In accordance with the provisions of General Instruction G to Form 10-K, the information required by Item 10 (Directors and Executive Officers of the Registrant), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management) and Item 13 (Certain Relationships and Related Transactions) is not set forth herein because the Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 26, 1998, which includes such information, will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this annual report. Such information is incorporated in this annual report by reference, except for the information required to be included in the Proxy Statements by paragraphs (i), (k) and (l) of Item 402 of Regulations S-K.

PART IV

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

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

(A) (1)	FINANCIAL STATEMENTS	PAGE NO.

	Report of Independent Public Accountants	22
	Consolidated Balance Sheet as of December 31, 1997 and 1996	23
	Consolidated Statement of Operations for the three years ended December 31, 1997, 1996 and 1995	24
	Consolidated Statement of Cash Flows for the three years ended December 31, 1997, 1996 and 1995	25
	Consolidated Statement of Shareholders' Equity for the three years ended December 31, 1997, 1996 and 1995	26
	Notes to Consolidated Financial Statements	27
(2)	FINANCIAL STATEMENT SCHEDULES	
	Report of Independent Public Accountants	40
	Schedule II--Valuation and Qualifying Accounts	41
(B)	REPORTS ON FORM 8-K	
	None	
(C)	EXHIBITS	
3.1	Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995**	
3.2	Amended and Restated By-Laws of the Company, effective March 31, 1997*****	
4.1	Form of Indenture between the Company and The Bank of New York**	
4.2	Form of Note (included in Exhibit 4.1)	
4.3	First Supplemental Indenture dated as of March 21, 1997 between the Company and The Bank of New York*	
9	Second Amended WABCO Voting Trust/Disposition Agreement dated as of December 13, 1995 among the Management Investors (Schedules and Exhibits omitted)***	
10.1	Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust, effective January 31, 1995**	
10.2	ESOP Loan Agreement dated January 31, 1995 between Westinghouse Air Brake Company Employee Stock Ownership Trust ("ESOT") and the Company (Exhibits omitted)**	
10.3	Employee Stock Ownership Trust Agreement dated January 31, 1995 between the Company and U.S. Trust Company of California, N.A.**	
10.4	Pledge Agreement dated January 31, 1995 between ESOT and the Company**	
10.5	Credit Agreement dated as of January 31, 1995 and Amended and Restated as of February 15, 1995 and June 9, 1995 among the Company, various financial institutions, Chemical Bank Delaware, The Bank of New York and Credit Bank Suisse (Schedules and Exhibits omitted)***	
10.6	Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the Voting Trust, Vestar Equity Partners, L.P., Harvard Private Capital Holdings, Inc. ("Harvard"), American Industrial Partners Capital Fund II, L.P. ("AIP") and the Company*	
10.7	Common Stock Registration Rights Agreement dated as of January 31, 1995 among the Company, SIH, RAC	

Voting Trust, Vestar Capital, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc., the Pulse Shareholders and ESOT (Schedules and Exhibits omitted)**

- 10.8 Indemnification Agreement dated January 31, 1995 between the Company and the RAC Voting Trust trustees**
- 10.9 Agreement of Sale and Purchase of the North American Operations of the Railway Products Group, an operating division of American Standard Inc., dated as of 1990 between Rail Acquisition Corp. and American Standard Inc. (only provisions on indemnification are reproduced)**

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

- - - - -

* Filed herewith

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

*** Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1995

**** Filed as an exhibit to the Company's Current Report on Form 8-K, dated October 3, 1996

***** Filed as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-39159)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Westinghouse Air Brake Company:

We have audited the accompanying consolidated balance sheet of Westinghouse Air Brake Company (a Delaware corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westinghouse Air Brake Company and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania
February 16, 1998

WESTINGHOUSE AIR BRAKE COMPANY
CONSOLIDATED BALANCE SHEET

	DECEMBER 31	
	1997	1996
Dollars in thousands, except share data		
ASSETS		
CURRENT ASSETS:		
Cash.....	\$ 836	\$ 618
Accounts receivable.....	91,438	73,507
Inventories.....	69,297	62,355
Deferred taxes.....	11,169	9,517
Other.....	7,759	4,172
	-----	-----
Total current assets.....	180,499	150,169
Property, plant and equipment.....	186,534	162,324
Accumulated depreciation.....	(78,167)	(66,480)
	-----	-----
Property, plant and equipment, net.....	108,367	95,844
OTHER ASSETS:		
Prepaid pension costs.....	5,061	4,608
Goodwill.....	66,599	60,490
Other intangibles.....	42,466	44,241
Other noncurrent assets.....	7,887	7,884
	-----	-----
Total other assets.....	122,013	117,223
	-----	-----
Total Assets.....	\$ 410,879	\$ 363,236
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt.....	\$ 32,600	\$ 29,700
Accounts payable.....	37,582	23,789
Accrued income taxes.....	488	2,634
Advance deposits.....	21,210	13,330
Accrued compensation.....	13,080	10,947
Accrued warranty.....	12,851	8,172
Accrued interest.....	3,038	3,532
Accrued restructuring costs.....	--	3,158
Other accrued liabilities.....	10,931	6,731
	-----	-----
Total current liabilities.....	131,780	101,993
Long-term debt.....	332,334	311,990
Reserve for postretirement benefits.....	14,860	13,309
Accrued pension costs.....	4,700	4,724
Deferred income taxes.....	5,561	7,415
Other long-term liabilities.....	907	--
	-----	-----
Total liabilities.....	490,142	439,431
	-----	-----
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.....	105,522	104,321
Less-Treasury stock, at cost, 13,743,924 and 9,937,867 shares.....	(190,657)	(149,331)
Less-Unearned ESOP shares, at cost, 8,751,531 and 8,927,565 shares.....	(131,273)	(133,914)
Retained earnings.....	141,617	105,363
Cumulative translation adjustment.....	(4,946)	(3,108)
	-----	-----
Total shareholders' equity.....	(79,263)	(76,195)
	-----	-----
Liabilities and Shareholders' Equity.....	\$ 410,879	\$ 363,236
	=====	=====

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	----	----	----
Dollars in thousands, except share data			
Net sales.....	\$564,441	\$453,512	\$424,959
Cost of sales.....	378,323	300,163	278,901
	-----	-----	-----
Gross profit.....	186,118	153,349	146,058
Selling and marketing expenses.....	25,364	18,643	13,047
General and administrative expenses.....	38,033	29,437	22,791
Engineering expenses.....	24,386	18,244	14,577
Amortization expense.....	8,240	7,854	6,160
Other operating expense (income).....	120	(547)	181
	-----	-----	-----
Income from operations.....	89,975	79,718	89,302
Other income and expenses			
Interest expense.....	28,115	24,533	24,857
Interest expense to affiliates.....	1,614	1,619	6,141
Other (income) expense, net.....	(344)	(82)	(205)
	-----	-----	-----
Income before income taxes.....	60,590	53,648	58,509
Income taxes.....	23,327	20,923	23,402
	-----	-----	-----
Income before extraordinary item.....	37,263	32,725	35,107
Loss on extinguishment of debt, net of tax benefits.....	--	--	(1,382)
	-----	-----	-----
Net income.....	\$ 37,263	\$ 32,725	\$ 33,725
	=====	=====	=====
Earnings Per Common Share			
Basic earnings			
Income before extraordinary item.....	\$1.45	\$1.15	\$1.32
Loss on extinguishment of debt, net of tax benefits....			(.05)
	-----	-----	-----
Basic earnings per share.....	\$1.45	\$1.15	\$1.27
	=====	=====	=====
Diluted earnings			
Income before extraordinary item.....	\$1.42	\$1.15	\$1.32
Loss on extinguishment of debt, net of tax benefits....			(.05)
	-----	-----	-----
Diluted earnings per share.....	\$1.42	\$1.15	\$1.27
	=====	=====	=====
Weighted Average Shares Outstanding (in thousands)			
Basic.....	25,693	28,473	26,639
Diluted...	26,173	28,473	26,639
	=====	=====	=====

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS

Dollars in thousands	YEAR ENDED DECEMBER 31		
	1997	1996	1995
OPERATING ACTIVITIES			
Net income.....	\$ 37,263	\$ 32,725	\$ 33,725
Adjustments to reconcile net income to cash provided by operations			
Depreciation and amortization.....	24,624	22,249	18,634
Provision for ESOP contribution.....	3,229	2,870	2,597
Deferred income taxes.....	(3,506)	2,456	(1,137)
Extraordinary item.....			1,382
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable.....	(6,623)	(9,868)	5,841
Inventories.....	1,817	8,100	(7,932)
Accounts payable.....	5,900	(6,574)	3,786
Accrued income taxes.....	(1,349)	(411)	(5,879)
Accrued liabilities and advance deposits.....	5,522	9,740	(1,825)
Other assets and liabilities.....	97	(2,376)	(3,311)
Net cash provided by operating activities.....	66,974	58,911	45,881
INVESTING ACTIVITIES			
Purchase of property, plant and equipment, net.....	(29,196)	(12,855)	(16,205)
Acquisitions of businesses.....	(13,492)	(78,890)	(54,900)
Net cash used for investing activities.....	(42,688)	(91,745)	(71,105)
FINANCING ACTIVITIES			
Proceeds from issuance of debt obligations.....		65,000	417,000
Repayments of term debt.....	(18,200)	(26,300)	(175,000)
Net proceeds from (repayments of) revolving credit arrangements.....	39,880	(2,935)	59,785
Net repayments of other borrowings.....	(555)		
Payment of debt to affiliate.....		(10)	(73,910)
Debt issuance fees.....	(2,068)	(492)	(11,041)
Purchase of treasury stock.....	(44,000)	(1,629)	(165,602)
Purchase of ESOP shares.....			(140,040)
Cash dividends.....	(1,009)	(1,127)	(285)
Proceeds from exercise of stock options.....	3,513		
Net proceeds from stock offering.....			95,454
Issuance of shares to acquire Pulse Electronics.....			17,900
Net cash (used for) provided by financing activities...	(22,439)	32,507	24,261
Effect of changes in currency exchange rate.....	(1,629)	735	(131)
Increase (decrease) in cash.....	218	408	(832)
Cash, beginning of year.....	618	210	1,042
Cash, end of year.....	\$ 836	\$ 618	\$ 210
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Interest paid during the year.....	\$ 30,223	\$ 25,624	\$ 28,290
Income taxes paid during the year.....	28,182	20,452	30,269

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Dollars in thousands, except per share data	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	UNALLOCATED ESOP SHARES	RETAINED EARNINGS	CUMULATIVE TRANSLATION ADJUSTMENT
BALANCE, DECEMBER 31, 1994.....	\$400	\$ 9,600			\$ 40,325	\$(3,528)
Net income.....					33,725	
Cash dividends (\$.01 per share)...					(285)	
Purchase of treasury stock.....			\$(165,602)			
Loan to ESOP to purchase shares...				\$(140,040)		
Allocation of ESOP shares.....		(204)		2,801		
Acquisition of Pulse Electronics...			17,900			
Initial public stock offering....	74	95,380				
Translation adjustment.....						756
BALANCE, DECEMBER 31, 1995.....	474	104,776	(147,702)	(137,239)	73,765	(2,772)
Net income.....					32,725	
Cash dividends (\$.04 per share)...					(1,127)	
Purchase of treasury stock.....			(1,629)			
Allocation of ESOP shares.....		(455)		3,325		
Translation adjustment.....						(336)
BALANCE, DECEMBER 31, 1996.....	474	104,321	(149,331)	(133,914)	105,363	(3,108)
Net income.....					37,263	
Cash dividends (\$.04 per share)...					(1,009)	
Purchase of treasury stock.....			(44,000)			
Exercise of stock options, net of tax benefits.....		839	2,674			
Allocation of ESOP shares.....		362		2,641		
Translation adjustment.....						(1,838)
BALANCE, DECEMBER 31, 1997.....	\$474	\$105,522	\$(190,657)	\$(131,273)	\$ 141,617	\$(4,946)

TOTAL
SHAREHOLDERS'
EQUITY

Dollars in thousands, except per share data

BALANCE, DECEMBER 31, 1994.....	\$ 46,797
Net income.....	33,725
Cash dividends (\$.01 per share)...	(285)
Purchase of treasury stock.....	(165,602)
Loan to ESOP to purchase shares...	(140,040)
Allocation of ESOP shares.....	2,597
Acquisition of Pulse Electronics...	17,900
Initial public stock offering....	95,454
Translation adjustment.....	756
BALANCE, DECEMBER 31, 1995.....	(108,698)
Net income.....	32,725
Cash dividends (\$.04 per share)...	(1,127)
Purchase of treasury stock.....	(1,629)
Allocation of ESOP shares.....	2,870
Translation adjustment.....	(336)
BALANCE, DECEMBER 31, 1996.....	(76,195)
Net income.....	37,263
Cash dividends (\$.04 per share)...	(1,009)
Purchase of treasury stock.....	(44,000)
Exercise of stock options, net of tax benefits.....	3,513
Allocation of ESOP shares.....	3,003
Translation adjustment.....	(1,838)
BALANCE, DECEMBER 31, 1997.....	\$ (79,263)

The accompanying notes are an integral part of this statement.

WESTINGHOUSE AIR BRAKE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

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

INVENTORIES

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

Dollars in thousands	DECEMBER 31	
	1997	1996
Raw materials.....	\$27,395	\$20,140
Work-in-process.....	26,640	31,294
Finished goods.....	15,262	10,921
Total inventory.....	\$69,297	\$62,355

PROPERTY, PLANT AND EQUIPMENT

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

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

Accelerated depreciation methods are utilized for income tax purposes.

INTANGIBLE ASSETS

Goodwill is amortized on a straight-line basis over 40 years. Other intangibles are amortized on a straight-line basis over their estimated economic lives.

Goodwill and other intangible assets, including patents and tradenames, are periodically reviewed for impairment based on an assessment of future operations (see Note 4).

REVENUE RECOGNITION

Revenue is recognized when products have been shipped to the respective customers and the price for the product has been determined. Sales returns are infrequent and not material in relation to the Company's net sales.

STOCK-BASED COMPENSATION

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), in October 1995. This statement established a "fair value based method" of financial accounting and

related reporting standards for stock-based employee compensation plans, such as the Company's 1995 Stock Incentive Plan (see Note 11). SFAS No. 123 became effective for calendar year 1996 and provides for adoption in the income statement or through footnote disclosure only. The Company has continued to account for its 1995 Stock Incentive Plan under APB Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS 123, and has provided the required disclosure in the footnotes (see Note 11).

RESEARCH AND DEVELOPMENT

Research and development costs are charged to expense as incurred. Such costs totaled \$24.4 million, \$18.2 million and \$14.6 million in 1997, 1996 and 1995, respectively.

WARRANTY COSTS

Warranty costs are accrued based on management's estimates of repair or upgrade costs per unit and historical experience. In recent years, the Company has introduced several new products. The Company does not have the same level of historical warranty experience for these new products as it does for its continuing products. Therefore, warranty reserves have been established for these new products based upon management's estimates. Actual future results may vary from such estimates. Warranty expense was \$9.9 million, \$5.5 million and \$8.1 million for 1997, 1996 and 1995, respectively. Warranty reserves were \$12.9 million and \$8.2 million at December 31, 1997 and 1996, respectively.

FINANCIAL DERIVATIVES

The Company periodically enters into interest rate swap agreements to reduce the impact of interest rate changes on its variable rate borrowings. Interest rate swaps are agreements with a counterparty to exchange periodic interest payments (such as pay fixed, receive variable) calculated on a notional principal amount. The interest rate differential to be paid or received is accrued to interest expense (see Note 5).

INCOME TAXES

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The provision for income taxes includes Federal, state and foreign income taxes (see Note 9).

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign subsidiaries are translated into U.S. currency under the guidelines set forth in SFAS No. 52, "Foreign Currency Translation." The effects of currency exchange rate changes on intercompany transactions of a long-term investment nature are accumulated and carried as a component of shareholders' equity.

EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings per Share". As required, the Company adopted this Standard in its 1997 financial statements for all periods presented.

SFAS No. 128 sets forth requirements for computing basic and diluted 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 (employee stock options) (see Note 10).

The adoption of SFAS No. 128 did not have a material impact on reported earnings per share.

SIGNIFICANT CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK

The Company's trade receivables are primarily from rail and transit industry original equipment manufacturers, railroad carriers and commercial companies that utilize rail cars in their operations, such as utility and chemical companies. No one customer accounted for more than 10% of the Company's sales in 1997 or 1996, and, in 1995, one customer accounted for more than 10%. The allowance for doubtful accounts was \$2.0 million and \$1.3 million as of December 31, 1997 and 1996, respectively.

EMPLOYEES

As of December 31, 1997, approximately 29% of the Company's workforce is covered by collective bargaining agreements. These agreements expire at various times between 1998 and 2002.

RECENT ACCOUNTING PRONOUNCEMENTS

During 1997, the Financial Accounting Standards Board issued several Statements

of Financial Accounting Standards including the following:

SFAS No. 130, "Reporting Comprehensive Income," is effective for fiscal years beginning after December 15, 1997. This Statement establishes standards for reporting and display of comprehensive income and its components. Comprehensive income includes net income and all other changes in shareholders' equity except those resulting from investments and distributions to owners.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," is effective for financial statements issued for periods beginning after December 15, 1997. This Statement requires financial and descriptive information about an entity's operating segments to be included in the annual financial statements.

Neither of these standards, when implemented, is expected to impact the reported financial position or results of operations of the Company.

3. ACQUISITIONS

Effective July 31, 1997 the Company acquired 100% of the stock of H.P. s.r.l. ("HP"), an Italian company, for a total purchase price of \$5.8 million, which included the assumption of \$2.3 million in debt. HP is located in Sassuolo, Italy and is a leading supplier of door controls for transit rail cars and buses in the Italian market. Revenues approximated \$9 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 \$3.5 million was allocated to goodwill.

Effective May 1, 1997 the Company purchased Stone Safety Service Corporation and Stone U.K. Limited ("Stone"), a supplier of transit air conditioning equipment, from Enprotech Corporation, a subsidiary of Itochu International. Stone is located in New Jersey and England. On June 27, 1997, the Company acquired the heavy rail air conditioning business of Thermo King Corporation ("Thermo King") from Westinghouse Electric. The Thermo King purchase included certain inventory, equipment and drawings. The aggregate purchase price for the Stone and Thermo King acquisitions was approximately \$7.7 million. Annual revenues of the Stone and Thermo King acquisitions aggregate approximately \$30 million. The acquisitions were accounted for under the purchase method. The excess of the purchase price over the fair value of net assets acquired of approximately \$2 million was allocated to goodwill.

The results of operations for HP, Stone and Thermo King are included in the Company's financial statements since the date of the applicable acquisition. The effect of the acquisitions is not considered material to the consolidated results of the Company.

On September 19, 1996, the Company acquired from Mark IV Industries Inc. the Vapor Group ("Vapor") for a cash purchase price of approximately \$63.9 million. The transaction, which has been accounted for as a purchase, was effective September 1, 1996 and accordingly the results of Vapor have been included in the accompanying financial statements since September 1, 1996. Pursuant to an earn out provision, the purchase price may be increased by up to \$2 million based on a sales formula. Vapor is the leading manufacturer of door controls for transit rail cars and metropolitan buses in the United States. Annual revenues for its most recent fiscal year prior to the acquisition of totaled \$65 million. The net tangible assets of Vapor were approximately \$36 million at the date of purchase. The fair market valuations and allocation of the purchase price to the acquired tangible and intangible assets have been based upon an independent appraisal.

The purchase price paid in excess of the fair value of the acquired net tangible assets was approximately \$28.5 million and has been allocated as follows:

Dollars in thousands

Tradename.....	\$11,121
Patents.....	6,479
Non-compete agreements.....	1,261
Goodwill.....	9,191
Technology.....	425

	\$28,477

The tradename and goodwill are being amortized over 40 years; the patents over their remaining lives; and the non-compete agreements over 5 years. Annual amortization expense of the intangible assets is \$1.2 million.

In conjunction with integrating the Vapor operations into the Company, early retirement incentives and other severance programs have been offered to the Vapor employees. The estimated cost of this restructuring (\$3.2 million) was accrued in the allocation of the Vapor purchase price.

Pro forma results of operations, including the effect of the pro forma adjustments related to the acquisition of Vapor, assuming the transaction had occurred on January 1, 1995, are as follows:

(UNAUDITED)
YEAR ENDED DECEMBER 31

Dollars in thousands,
except per share

1996 1995

	1996	1995
Net sales.....	\$508,107	\$489,936
Net income.....	33,497	35,177
Diluted earnings per common share.....	1.18	1.32

The pro forma financial information presented above does not purport to present what the Company's results of operations would have been if the acquisition of Vapor had

actually occurred on January 1, 1995, or to project the Company's results of operations for any future period.

Effective January 31, 1996, the Company acquired Futuris Industrial Products Pty. Ltd. ("Futuris"), an Australian company, for a cash purchase price of \$15 million. Futuris is a leading manufacturer of brake shoes and disc brake pads for railroads in Australia and the Pacific Rim. 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, or \$10 million, was allocated primarily to goodwill. The effect of the acquisition is not considered material to the consolidated results of the Company.

4. INTANGIBLES

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

Dollars in thousands	DECEMBER 31	
	1997	1996
Patents, tradenames and trademarks, net of accumulated amortization of \$19,768 and \$15,407 (4-40 years).....	\$35,942	\$36,920
Covenants not to compete, net of accumulated amortization of \$9,333 and \$8,963 (5 years)....	1,133	1,839
Other intangibles, net of accumulated amortization of \$7,052 and \$7,090 (3-7 years).....	5,391	5,482
	\$42,466	\$44,241

At December 31, 1997 and 1996, goodwill, net of accumulated amortization of \$5.4 million and \$4.2 million, respectively, totaled \$66.6 million and \$60.5 million, respectively. The Company evaluates the recoverability of intangible assets, including goodwill, at each balance sheet date based on forecasted future operations, undiscounted cash flows and other subjective criteria. Based upon historical information, management believes that the carrying amount of these intangible assets will be realizable over the respective amortization periods.

5. LONG-TERM DEBT

Long-term debt consisted of the following:

Dollars in thousands	DECEMBER 31	
	1997	1996
Revolving credit notes.....	\$100,880	\$ 61,000
Term loan.....	145,500	163,700
Senior notes.....	100,000	100,000
Note payable--Pulse acquisition.....	16,990	16,990
Other.....	1,564	--
	364,934	341,690
Less--current portion.....	32,600	29,700
	\$332,334	\$311,990

The Company's revolving credit and term loan borrowings have been made pursuant to a credit agreement (the "Credit Agreement"), with a consortium of commercial banks. The Credit Agreement provides for up to \$140.0 million of revolving credit loans and provided \$170.6 million of term loans, of which \$145.5 million was outstanding at December 31, 1997. The Credit Agreement also provides for up to \$5 million of swingline loans and for the issuance of up to \$50 million of letters of credit. The incurrence of swingline loans and the issuance of letters of credit will reduce the \$140 million borrowing availability under the revolving credit portion of the Credit Agreement.

Borrowings under the Credit Agreement bear variable rates of interest indexed to several options including LIBOR and prime. At December 31, 1997, the contractual interest rate on borrowings outstanding under the Credit Agreement was 7.36%. The Company entered into interest rate swap agreements to alter the impact of changes in interest rates on its variable rate borrowings. At year-end 1997, the notional value of interest rate swaps outstanding totaled \$100 million. The swap agreements effectively change the Company's interest rate exposure on \$100 million of loans from variable to fixed rates. As a result, the effective

interest rate was 7.67% on borrowings under the Credit Agreement at year-end 1997. The interest rate swap agreements mature in 1998 through 2000.

The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance.

The maximum balances outstanding under the revolving credit loans were \$105.4 million and \$85.9 million during 1997 and 1996, respectively. Average balances outstanding were \$87.7 million and \$72.0 million, respectively. Borrowings outstanding under the revolving credit commitment are due January 31, 2001.

Scheduled term loan principal repayments are as follows:

Dollars in millions

1998.....	\$ 32.6
1999.....	36.9
2000.....	18.5
2001.....	38.0
2002.....	19.5
	\$145.5

At December 31, 1997, the Company had outstanding letters of credit in the aggregate amount of \$17.1 million, primarily as collateral for contract performance guarantees.

Substantially all of the Company's U.S. assets, 100% of the capital stock of its U.S. subsidiaries and 65% of the capital stock of its non-U.S. subsidiaries are pledged as collateral pursuant to the Credit Agreement. The Company's indenture, pursuant to which the Notes were issued, contains certain restrictive covenants which, among other things, limit the ability of the Company and certain of its Canadian subsidiaries to incur indebtedness, pay dividends (limited to \$1.9 million annually) on and redeem capital stock, create restrictions on investments in unrestricted subsidiaries, make distributions from certain subsidiaries, use proceeds from the sale of assets and subsidiary stock, enter into transactions with affiliates, create liens and enter into sale/ leaseback transactions. The Company's indenture also restricts, subject to certain exceptions, the Company's ability to consolidate and merge with, or to transfer all or substantially all of its assets to, another person.

The Company's senior notes, issued in June 1995, bear interest at the rate of 9.375% and mature June 2005. The net proceeds were used to prepay an additional portion of the term loans outstanding under the existing credit agreement. The Notes are senior unsecured obligations of the Company and rank pari passu in right of payment with all existing and future indebtedness under (i) capitalized lease obligations, (ii) the Credit Agreement, (iii) indebtedness of the Company for money borrowed and (iv) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which the Company is responsible or liable unless, in the case of clause (iii) or (iv), it is provided that such obligations are subordinate in right of payment to the Notes.

In conjunction with the Credit Agreement and Senior Note Offering and other borrowings, debt issuance costs of \$14.0 million were incurred and are being amortized over the terms of the borrowings. The accumulated amortization of debt issuance costs were \$4.7 million and \$2.8 million at December 31, 1997 and 1996, respectively.

The \$17 million note payable incurred in conjunction with the acquisition of Pulse Electronics matures January 2004 and bears interest at 9.5% per annum, subject to adjustment, based on prime plus 1%, in February 1998 and 2001 with a maximum rate of 13%.

6. RETIREMENT AND EMPLOYEE SAVINGS PLANS

The Company has a defined benefit pension plan which covers substantially all union employees and provides pension benefits of stated amounts for each year of service of the employee. The Company also has a defined contribution plan which prior to March 31, 1995, covered certain nonunion employees and a noncontributory defined benefit plan for certain domestic service center employees. In connection with the establishment of the ESOP (see Note 8) in January 1995, the pension plan for U.S. salaried employees was modified to eliminate any credit (or accrual) for current service costs for any future periods, effective March 31, 1995. The Company's 401(k) savings plan was also amended to provide for the Company's future matching contributions to be made to the ESOP in the form of the Company's common stock. The Company's funding methods, which are primarily based on the ERISA requirements, differ from those used to recognize pension expense, which is primarily based on the projected unit credit method, in the accompanying financial statements.

Net periodic pension expense for the U.S. pension plans was as follows:

Dollars in thousands	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Current service cost...	\$ 621	\$ 564	\$ 807
Interest on projected benefit obligation (PBO).....	1,297	1,186	1,128
Return on plan assets.....	(2,905)	(1,178)	(883)
Net			

amortization/deferrals..	1,611	50	(64)
Recognition of special events.....	--	696	70

Net periodic pension expense.....	\$ 624	\$ 1,318	\$1,058

Weighted average discount rates of 7.25%, 7.5% and 7.5% were used in determining the actuarial present value of the projected benefit obligation at December 31, 1997, 1996 and 1995, respectively. The expected long-term rates of return on assets were 10% in 1997, 1996 and 1995. Plan assets consist primarily of common stocks, corporate bonds, U.S. government obligations and temporary investments.

In 1996, as the result of an early retirement package offered to certain union employees, the Company incurred a charge of \$696,000 reflected above as a special event.

The following table sets forth the U.S. pension plans' funded status and amounts recognized:

Dollars in thousands	DECEMBER 31	
	1997	1996

Actuarial present value of accumulated benefit obligations (ABO)		
Vested benefits.....	\$(14,333)	\$(12,417)
Nonvested benefits.....	(2,317)	(253)

Total ABO.....	(16,650)	(12,670)
Additional benefits based on estimated future salary levels.....	(2,839)	(3,897)

PBO for service rendered to date.....	(19,489)	(16,567)
Plan assets at fair value.....	16,118	13,303

PBO in excess of plan assets....	(3,371)	(3,264)
Unrecognized prior service cost.....	248	231
Unrecognized net gain from past experience different from that assumed and changes in assumptions.....	(1,551)	(1,572)
Adjustment for minimum liability.....	(26)	(119)

Accrued pension cost.....	\$ (4,700)	\$ (4,724)

The Company's Canadian subsidiaries have defined benefit retirement plans covering substantially all employees. Net periodic pension expense for the Canadian plans was as follows:

Dollars in thousands	YEAR ENDED DECEMBER 31		
	1997	1996	1995

Current service cost.....	\$ 684	\$ 490	\$ 437
Interest on PBO.....	1,378	1,208	1,131
Return on plan assets.....	(1,558)	(1,304)	(1,306)
Net amortization/deferrals.....	254	252	132

Total pension expense.....	\$ 758	\$ 646	\$ 394

Weighted average discount rates of 7.25%, 8.5% and 8.5% were used in determining the actuarial present value of the projected benefit obligation at December 31, 1997, 1996 and 1995. The expected long-term rates of return on assets at the measurement dates were 9.25%, 9.25% and 10% in 1997, 1996 and 1995, respectively.

The following table sets forth the Canadian plans' funded status and amounts recognized:

Dollars in thousands	DECEMBER 31	
	1997	1996

Actuarial present value of ABO		
Vested benefits.....	\$(18,438)	\$(14,258)
Nonvested benefits.....	(114)	(59)

Total ABO.....	(18,552)	(14,317)
Additional benefits based on estimated future salary levels.....	(1,384)	(900)

PBO for service rendered to date.....	(19,936)	(15,217)

Plan assets at fair value.....	19,693	17,637
Over (under) funded PBO.....	(243)	2,420
Unrecognized prior service cost.....	1,940	1,135
Unrecognized net gain from past experience different from that assumed and changes in assumptions.....	3,364	1,053
Prepaid pension cost.....	\$ 5,061	\$ 4,608

7. POSTRETIREMENT BENEFITS

In addition to providing pension benefits, the Company had provided certain unfunded postretirement health care and life insurance benefits for substantially all U.S. employees. In conjunction with the establishment of the ESOP in January 1995 (see Note 8), the postretirement health care and life insurance benefits for salaried employees were modified to discontinue benefits for employees who had not attained the age of 50 by March 31, 1995. The Company is not obligated to pay health care and life insurance benefits to individuals who had retired prior to 1990.

Postretirement benefit expenses were comprised of the following:

Dollars in thousands	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Service cost.....	\$ 289	\$ 267	\$202
Interest cost.....	1,226	935	757
Net amortization.....	155	13	(93)
Total postretirement benefit expense.....	\$1,670	\$1,215	\$866

The accumulated postretirement benefit obligation was comprised of the following:

Dollars in thousands	DECEMBER 31	
	1997	1996
Fully eligible plan participants.....	\$ 7,942	\$ 7,514
Other active plan participants...	9,808	7,466
Total postretirement ABO.....	17,750	14,980
Unrecognized transition obligation.....	(324)	(550)
Unrecognized prior service cost.....	290	359
Unrecognized net loss.....	(2,856)	(1,480)
Accrued postretirement benefit.....	\$14,860	\$13,309

The accumulated postretirement benefit obligation was actuarially determined using a method that applied specific interest rates to future cash flows when discounting the obligation to its present value. The interest rate associated with future cash flows and used to discount the accumulated postretirement benefit obligation to present value was 7.25%, 7.5% and 7.5% at December 31, 1997, 1996 and 1995. The assumed medical cost trend rate at December 31, 1997 was 5.75%. A one percentage point increase in the assumed health care cost trend rates for each future year increases annual postretirement benefit expense by \$256,000 and the accumulated postretirement benefit obligation by \$2.7 million.

8. EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST (ESOP)

Effective January 31, 1995, the Company established the ESOP to enable participating employees to obtain ownership interests in the Company. Employees eligible to participate in the ESOP primarily include the salaried U.S. employees and, as described in Notes 6 and 7, the ESOP contributions are intended to supplement or replace other salaried employee benefit plans.

In connection with the establishment of the ESOP, the Company made a \$140 million loan to the ESOP, which was used to purchase 9,336,000 shares of the Company's outstanding common stock. The ESOP loan initially had a term of 50 years with interest at 8.5% and was collateralized by the shares purchased by the ESOP. Company contributions to the ESOP will be used to repay the ESOP loan's annual debt service requirements of \$12 million. The Company is obligated to contribute amounts sufficient to repay the ESOP loan. The ESOP uses such Company contributions to repay the ESOP loan. Approximately 187,000 shares were to be allocated annually to participants over a 50-year period. These transactions occur simultaneously and, for accounting purposes, offset each other. Unearned ESOP shares of \$131.3 million at December 31, 1997, is reflected as a reduction in shareholders' equity in the accompanying financial statements and will be amortized to compensation expense coterminous with the ESOP loan. In addition, any difference between the market price of the Company's common stock and \$15 per share (the purchase price paid by the ESOP) will also be charged or credited to compensation expense (with the offset to additional paid-in capital) based on the annual allocation to ESOP participants. Total compensation expense recognized for allocated ESOP shares was \$3.2 million, \$2.6 million and \$2.6 million in 1997, 1996 and 1995, respectively. In addition, the Company incurred expenses of approximately \$1 million in 1995 to establish the ESOP and related trust.

9. INCOME TAXES

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

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
U. S. federal statutory rate.....	35.0%	35.0%	35.0%
State taxes.....	2.7	3.5	4.3
Foreign.....	.8	.5	.7
Effective rate.....	38.5%	39.0%	40.0%

The provision for income taxes consisted of the following:

YEAR ENDED DECEMBER 31

Dollars in thousands	1997	1996	1995
<hr/>			
Current taxes			
Federal.....	\$18,490	\$17,498	\$16,032
State.....	1,849	2,138	3,817
Foreign.....	6,494	2,372	6,413
	<hr/>		
	26,833	22,008	26,262
Deferred taxes			
Federal.....	(1,375)	(2,432)	(597)
State.....	(137)	(278)	(142)
Foreign.....	(1,994)	1,625	(3,081)
	<hr/>		
	(3,506)	(1,085)	(3,820)
<hr/>			
Total provision.....	\$23,327	\$20,923	\$22,442
<hr/>			

The 1995 provision includes a \$960,000 income tax effect on the extraordinary loss (see Note 13) related to the early extinguishment of certain debt obligations.

The components of income before taxes on income for U.S. and foreign operations, primarily Canada, were \$47.9 million and \$12.7 million, respectively, for 1997, \$42.4 million and \$11.3 million, respectively, for 1996 and \$46.6 million and \$9.2 million, respectively, for 1995.

The sources of deferred income taxes were as follows:

Dollars in thousands	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Depreciation.....	\$ 176	\$ 782	\$ (619)
Postretirement benefits....	(851)	(171)	(427)
Pension.....	958	(319)	560
ESOP.....	(1,150)	(919)	(957)
Accrued warranty.....	(1,697)	(497)	8
Inventory.....	451	(1,450)	(77)
Other liabilities and reserves.....	(1,393)	1,489	(2,308)
Deferred tax benefits....	\$(3,506)	\$(1,085)	\$(3,820)

Components deferred tax assets and liabilities were as follows:

Dollars in thousands	DECEMBER 31	
	1997	1996
Depreciation.....	\$(8,422)	\$(8,246)
Postretirement benefits.....	2,915	2,064
Pension.....	780	(178)
ESOP.....	3,026	1,876
Accrued warranty.....	4,178	2,481
Inventory.....	3,111	3,562
Other.....	20	543
Net deferred tax asset.....	\$ 5,608	\$ 2,102

10. EARNINGS PER SHARE

The computation of earnings per share is as follows:

Dollars in thousands, except per share	YEAR ENDED DECEMBER 31		
	1997	1996	1995
BASIC EARNINGS PER SHARE			
Net income applicable to common shareholders.....	\$37,263	\$32,725	\$33,725
Divided by			
Weighted average shares outstanding.....	25,693	28,473	26,639
Basic earnings per share.....	\$1.45	\$1.15	\$1.27
DILUTED EARNINGS PER SHARE			
Net income applicable to common shareholders.....	\$37,263	\$32,725	\$33,725
Divided by sum of			
Weighted average shares outstanding.....	25,693	28,473	26,639
Conversion of dilutive stock options.....	480	--	--
Diluted shares outstanding.....	26,173	28,473	26,639
Diluted earnings per share.....	\$1.42	\$1.15	\$1.27

Options to purchase .5 million, 2.2 million and 1.3 million shares of common stock were outstanding in 1997, 1996 and 1995, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price exceeded the average market price of the common shares.

11. 1995 STOCK INCENTIVE PLAN

The Company adopted the 1995 Stock Incentive Plan on May 26, 1995, under which the Company may grant options to employees of Westinghouse Air Brake Company and Subsidiaries for up to 3.1 million shares of Westinghouse Air Brake Company common stock. Options to purchase approximately 2.9 million shares of

Westinghouse Air Brake Company common stock under the plan have been granted, net of forfeitures, to employees of Westinghouse Air Brake Company at, or in excess of, fair market value at the date of grant. Generally, the options become exercisable over three and five-year vesting periods and expire ten years from the date of grant.

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

Effective November 1, 1995, the Company adopted a nonemployee directors stock option plan under which 100,000 shares of common stock are reserved for issuance at a price not less than \$14. Through year-end 1997, the Company granted nonstatutory stock options to nonemployee directors to purchase a total of 25,000 shares.

The Company applies APB 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized under these plans. Had compensation expense for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method set forth under SFAS No. 123, the Company's net income and earnings per share would be as set forth in the following table. For purposes of pro forma disclosures, the estimated fair value is amortized to expense over the options' vesting period.

Dollars in thousands, except per share	YEAR ENDED DECEMBER 31		
	1997	1996	1995

Net income			
As reported.....	\$37,263	\$32,725	\$33,725
Pro forma.....	34,007	31,117	32,482
Diluted earnings per share			
As reported.....	\$ 1.42	\$ 1.15	\$ 1.27
Pro forma.....	1.30	1.09	1.22

Since compensation expense associated with option grants is recognized over the vesting period, the initial impact of applying SFAS No. 123 on pro forma net income is not

representative of the potential impact on pro forma net income in future years. In each subsequent year, pro forma compensation expense would include the effect of recognizing a portion of compensation expense from multiple awards.

For purposes of presenting pro forma results, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Dividend yield.....	.23%	.32%	0.00%
Risk-free interest rate....	5.80	6.25	6.58
Stock price volatility.....	29.22	30.43	30.43
Expected life (years).....	5.3	7.3	7.5

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

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

	1997		1996		1995	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Beginning of year.....	2,222,456	\$13.63	1,279,500	\$14.00	--	--
Granted.....	748,126	17.84	958,956	13.14	1,316,500	\$14.00
Exercised.....	(135,139)	13.75				
Canceled.....	(57,000)	14.00	(16,000)	14.00	(37,000)	14.00
End of year.....	2,778,443	\$14.64	2,222,456	\$13.63	1,279,500	\$14.00
Exercisable at end of year...	671,971		332,992		252,300	
Available for future grant...	186,418		877,544		1,820,500	
Weighted average fair value of options granted during the year.....	\$8.07		\$4.05		\$5.56	

Exercise prices for options outstanding as of December 31, 1997 ranged from \$11.00 to \$21.38. The weighted-average remaining contractual life of those options is 8 years.

12. OPERATING LEASES

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

Dollars in thousands

1998.....	\$ 2,783
1999.....	2,418
2000.....	2,188
2001.....	1,569
2002.....	855
Thereafter.....	2,573

	\$12,386

Rental expense under all leases was approximately \$3.3 million, \$2.8 million and \$2.8 million for the years ended December 31, 1997, 1996 and 1995. Operating leases relate principally to several manufacturing locations, warehouse and office space, transportation equipment and communication systems.

13. EXTRAORDINARY ITEM

In connection with an amendment to the Credit Agreement (see Note 5), the Company wrote off approximately \$2.3 million of previously capitalized cost

relating to the previous credit agreement. In 1995, this resulted in an after tax charge of \$1.4 million or \$.05 per share, which has been reflected as an extraordinary item.

14. STOCK REPURCHASE

In March 1997, the Company repurchased from Scandinavian Incentive Holdings, B.V., ("SIH"), 4,000,000 shares of the Company's Common Stock for an aggregate purchase price of \$44 million plus fees and expenses of approximately \$2 million (the "Redemption"). The Redemption was effected pursuant to a Redemption Agree-

ment (the "Redemption Agreement") dated as of March 5, 1997 among the Company, SIH and Incentive AB, the sole shareholder of SIH. Concurrently therewith, SIH sold its remaining 6,000,000 shares of WABCO Common Stock to investors consisting of Vestar Equity Partners, L.P. ("Vestar"), Harvard Private Capital Holdings, Inc. ("Harvard"), American Industrial Partners Capital Fund II, L.P. ("AIP") and certain members of management of the Company (the "Management Purchasers") for a purchase price of \$11 per share in cash, pursuant to a Stock Purchase Agreement dated as of March 5, 1997, which sale was effective as of March 31, 1997 (the "SIH Purchase").

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

Upon the Company's receipt of the requisite consents, the Indenture was amended (i) to permit additional Restricted Payments in an amount of approximately \$22 million in order to complete the Redemption, and (ii) to permit up to \$2 million of additional Restricted Payments to be made in advance of when they would otherwise have been permitted.

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

In thousands, except per share	REPORTED	PRO FORMA
Net income.....	\$37,263	\$36,774
Basic earnings per share.....	1.45	1.49
Diluted earnings per share....	1.42	1.46
Average shares used for basic.....	25,693	24,718
Average shares used for diluted.....	26,173	25,198

15. STOCKHOLDERS' AND VOTING TRUST AGREEMENTS

As of December 31, 1997, the approximate ownership interests in the Company's common stock are held by management and the ESOP (45%), the investors referred to in Note 14 (16%), and all others including public shareholders (39%). The investors referred to in Note 14 and certain members of senior management purchased 6 million shares of WABCO common stock from SIH. The seller is a successor in interest to Incentive AB (a Swedish corporation) which acquired Investment AB Cardo, an original equity owner at the time of the 1990 acquisition of the Railway Products Group of American Standard, Inc. ("1990 Acquisition"). A Stockholders Agreement exists between management and the investors referred to in Note 14 that provides for, among other things, the composition of the Board of Directors as long as certain minimum stock ownership percentages are maintained, restrictions on the disposition of shares and rights to request the registration of the shares.

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

The shares held by the ESOP (established January 31, 1995) are subject to the terms of the related ESOP Loan Agreement, Employee Stock Ownership Trust Agreement, Employee Stock Ownership Plan and the Pledge Agreement. The ESOP is further described in Note 8.

16. 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, 1997 and 1996 there was no preferred stock issued or outstanding.

17. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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 which the Company believes will have a material adverse effect on its financial condition or results of operations. The Company historically has not been required to pay any material liability claims.

18. INTERNATIONAL SALES

The following table sets forth geographic sales distribution:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
United States.....	75%	75%	83%
Canada.....	13	16	13
Other international.....	12	9	4

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

DOLLARS IN MILLIONS	1997		1996	
	CARRY VALUE	FAIR VALUE	CARRY VALUE	FAIR VALUE
Senior Notes 9 3/8%.....	\$(100)	\$(106)	\$(100)	\$(102)
Note Payable--Pulse				
9 1/2%.....	(17)	(18)	(17)	(18)
Interest rate swaps.....	--	(1)	--	(1)

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

20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER

1997				
Net sales.....	\$136,508	\$138,066	\$142,761	\$147,106
Operating income.....	22,542	22,784	22,036	22,613
Income before taxes.....	15,719	15,279	14,486	15,106
Net income.....	9,589	9,320	8,836	9,518
Diluted earnings per common share.....	0.34	0.37	0.35	0.37
1996				
Net sales.....	\$105,731	\$109,135	\$109,801	\$128,845
Operating income.....	19,221	19,987	19,682	20,828
Income before taxes.....	12,826	13,761	13,348	13,713
Net income.....	7,696	8,256	8,009	8,764
Diluted earnings per common share.....	0.27	0.29	0.28	0.31

SIGNATURES

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

WESTINGHOUSE AIR BRAKE COMPANY

By /s/ WILLIAM E. KASSLING

 William E. Kassling
 Chief Executive Officer
 Date: February 26, 1998

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

SIGNATURE AND TITLE -----	DATE ----
By /s/ WILLIAM E. KASSLING ----- William E. Kassling, Chairman of the Board, President and Chief Executive Officer	February 26, 1998
By /s/ ROBERT J. BROOKS ----- Robert J. Brooks, Chief Financial Officer, Chief Accounting Officer and Director	February 26, 1998
By /s/ JAMES C. HUNTINGTON JR. ----- James C. Huntington Jr., Director	February 26, 1998
By /s/ KIM DAVIS ----- Kim Davis, Director	February 26, 1998
By /s/ EMILIO A. FERNANDEZ ----- Emilio A. Fernandez, Director	February 26, 1998
By /s/ JAMES V. NAPIER ----- James V. Napier, Director	February 26, 1998
By /s/ JAMES P. KELLEY ----- James P. Kelley, Director	February 26, 1998

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Westinghouse Air Brake Company:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements of Westinghouse Air Brake Company included in this Form 10-K, and have issued our report thereon dated February 16, 1998. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the index in Item 14(a)2 of this Form 10-K is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania
February 16, 1998

SCHEDULE II

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

DOLLARS IN THOUSANDS	BALANCE AT BEGINNING OF PERIOD	CHARGED/ (CREDITED) TO EXPENSE	CHARGED TO OTHER ACCOUNTS(1)	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
<hr/>					
1997					
Accrued warranty.....	\$8,172	\$9,893	\$2,281	\$7,495	\$12,851
Allowance for doubtful accounts.....	1,347	812	36	150	2,045
1996					
Accrued warranty.....	\$3,655	\$5,459	\$3,802	\$4,744	\$ 8,172
Allowance for doubtful accounts.....	831	406	210	100	1,347
1995					
Accrued warranty.....	\$3,685	\$8,123	--	\$8,153	\$ 3,655
Allowance for doubtful accounts.....	1,242	(361)	--	50	831
<hr/>					

(1) Reserves of acquired companies.

INDEX TO EXHIBITS

EXHIBIT NO. ---	DESCRIPTION -----
3.1	Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995**
3.2	Amended and Restated By-Laws of the Company, effective March 31, 1997*****
4.1	Form of Indenture between the Company and The Bank of New York**
4.2	Form of Note (included in Exhibit 4.1)
4.3	First Supplemental Indenture dated as of March 21, 1997 between the Company and The Bank of New York*
9	Second Amended WABCO Voting Trust/Disposition Agreement dated as of December 13, 1995 among the Management Investors (Schedules and Exhibits omitted)***
10.1	Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust, effective January 31, 1995**
10.2	ESOP Loan Agreement dated January 31, 1995 between Westinghouse Air Brake Company Employee Stock Ownership Trust ("ESOT") and the Company (Exhibits omitted)**
10.3	Employee Stock Ownership Trust Agreement dated January 31, 1995 between the Company and U.S. Trust Company of California, N.A.**
10.4	Pledge Agreement dated January 31, 1995 between ESOT and the Company**
10.5	Credit Agreement dated as of January 31, 1995 and Amended and Restated as of February 15, 1995 and June 9, 1995 among the Company, various financial institutions, Chemical Bank Delaware, The Bank of New York and Credit Bank Suisse (Schedules and Exhibits omitted)***
10.6	Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the Voting Trust, Vestar Equity Partners, L.P., Harvard Private Capital Holdings, Inc. ("Harvard"), American Industrial Partners Capital Fund II, L.P. ("AIP") and the Company*
10.7	Common Stock Registration Rights Agreement dated as of January 31, 1995 among the Company, SIH, the Voting Trust, Vestar Capital, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc., the Pulse Shareholders and ESOT (Schedules and Exhibits omitted)**
10.8	Indemnification Agreement dated January 31, 1995 between the Company and the Voting Trust trustees**
10.9	Agreement of Sale and Purchase of the North American Operations of the Railway Products Group, an operating division of American Standard Inc., dated as of 1990 between Rail Acquisition Corp. and American Standard Inc. (only provisions on indemnification are reproduced)**
10.10	Letter Agreement (undated) between the Company and American Standard Inc. on environmental costs and sharing**
10.11	Purchase Agreement dated as of June 17, 1992 among the Company, Schuller International, Inc., Manville Corporation and European Overseas Corporation (only provisions on indemnification are reproduced)**
10.12	Asset Purchase Agreement dated as of January 23, 1995 among the Company, Pulse Acquisition Corporation, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc. and the Pulse Shareholders (Schedules and Exhibits omitted)**
10.13	License Agreement dated as of December 31, 1993 between SAB WABCO Holdings B.V. and the Company**

EXHIBIT

NO. ---	DESCRIPTION -----
10.14	Letter Agreement dated as of January 19, 1995 between the Company and Vestar Capital Partners, Inc.**
10.15	Westinghouse Air Brake Company 1995 Stock Incentive Plan**
10.16	Westinghouse Air Brake Company 1995 Non-Employee Directors' Fee and Stock Option Plan**
10.17	Form of Employment Agreement between William E. Kassling and the Company**
10.18	Letter Agreement dated as of January 1, 1995 between the Company and Vestar Capital Partners, Inc.**
10.19	Form of Indemnification Agreement between the Company and Authorized Representatives**
10.20	Share Purchase Agreement between Futuris Corporation Limited and the Company (Exhibits omitted)**
10.21	Purchase Agreement dated as of September 19, 1996 by and among Mark IV Industries, Inc., Mark IV PLC, and W & P Holding Corp. (Exhibits and Schedules omitted)****
10.22	Purchase Agreement dated as of September 19, 1996 by and among Mark IV Industries Limited and Westinghouse Railway Holdings (Canada) Inc. (Exhibits and Schedules omitted)****
10.23	Amendment No. 1 to Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the Voting Trust, Vestar Equity Partners, L.P., Harvard, AIP and the Company*
10.24	Common Stock Registration Rights Agreement dated as of March 5, 1997 among the Company, Harvard, AIP and the Voting Trust*
21	List of subsidiaries of the Company*
23	Consent of Arthur Andersen LLP*
27	Financial Data Schedule*
99	Annual Report on Form 11-K for the year ended December 31, 1997 of the Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust*

- - - - -

* Filed herewith

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

*** Filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1995

**** Filed as an exhibit to the Company's Current Report on Form 8-K, filed September 19, 1996

***** Filed as an exhibit to the Company's Registration Statement on Form S-8 (Registration No. 333-39159)

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WESTINGHOUSE AIR BRAKE COMPANY

Issuer

AND

THE BANK OF NEW YORK
Trustee

FIRST SUPPLEMENTAL INDENTURE

Dated as of March 21, 1997

\$100,000,000

9-3/8% Senior Notes Due 2005

=====

FIRST SUPPLEMENTAL INDENTURE (hereinafter, the "First Supplemental Indenture"), dated as of March 21, 1997, between Westinghouse Air Brake Company, a Delaware corporation, as Issuer (the "Company") and The Bank of New York, a New York banking corporation, as Trustee (the "Trustee").

A. The Company has executed and delivered to the Trustee an Indenture dated as of June 20, 1995 (the "Indenture"), providing for the issuance of \$100,000,000 principal amount of the Company's 9-3/8% Senior Notes due 2005 (the "Senior Notes").

B. The Company desires to amend the Indenture in accordance with Article 9 thereof as follows, which amendments have been authorized by a majority of the holders of the outstanding Senior Notes in accordance with Section 9.2 of the Indenture.

C. The Company has executed and delivered to the Trustee (i) resolutions by the board of directors of the Company authorizing the execution of the First Supplemental Indenture and (ii) evidence of receipt by the Company of the requisite consents of the Senior Note holders pursuant to Section 9.2 of the Indenture.

D. The Company has executed and delivered to the Trustee (i) an officers' certificate and (ii) an opinion from the Company's counsel as conclusive evidence that the First Supplemental Indenture is permitted by the Indenture, not inconsistent with the Indenture and valid and binding upon the Company in accordance with its terms pursuant to Section 9.6 of the Indenture.

In consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company and the Trustee hereby amend the Indenture as follows:

1. Section 4.11(b) is hereby amended by deleting the word "and" at the end of clause (vi) thereto, deleting "." at the end of clause (vii) thereto, inserting ";" at the end of clause (vii) thereto, and adding the following new clauses (viii) and (ix):

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

(ix) up to an aggregate amount of \$2,000,000 of additional Restricted Payments from and after the effective date of the First Supplemental Indenture to this Indenture until such time as the Company has the authority under Section 4.11(a) to make such Restricted Payments; provided, however, that Restricted Payments made pursuant to this clause (ix) shall be included

in the calculation of Restricted Payments for all purposes under Section 4.11(a)(3).

2. For all purposes of this First Supplemental Indenture, except as otherwise expressly provided or unless the context otherwise requires, the terms and expressions used herein shall have the same meanings as corresponding terms and expressions used in the Indenture.

3. Except as hereby expressly amended, the Indenture and the Senior Notes issued thereunder are in all respects ratified and confirmed and all terms, conditions and provisions thereof shall remain in full force and effect.

4. This First Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Senior Notes theretofore or hereafter authenticated and delivered shall be bound hereby.

5. This First Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of which when taken together shall constitute one and the same instrument.

6. This First Supplemental Indenture shall be governed by the laws of the State of New York, without regard to conflicts of law principles thereof.

7. This First Supplemental Indenture shall become effective upon execution by the Company and the Trustee in accordance with the terms of the Indenture; however, the amendments to the Indenture set forth in this First Supplemental Indenture shall not become operative until the Company has deposited with the Trustee sufficient immediately available funds to make payments equal to \$15.00 for each \$1,000 principal amount of Senior Notes held by Holders who have delivered to the Trustee prior to 12:00 p.m., New York City time, on March 19, 1997 valid and unrevoked consents in form and substance satisfactory to the Company and the Trustee.

IN WITNESS WHEREOF, the parties have caused this First Supplemental Indenture to be duly executed as of the date and year first written above.

ISSUER

WESTINGHOUSE AIR BRAKE COMPANY

By: /s/ ROBERT J. BROOKS

Title: Vice President and Secretary

TRUSTEE

THE BANK OF NEW YORK

By: /s/ LUCILLE P. FIRRINCIELI

Title: Assistant Vice President

AMENDED AND RESTATED
STOCKHOLDERS AGREEMENT

THIS AMENDED AND RESTATED STOCKHOLDERS AGREEMENT (this "AGREEMENT") dated as of March 5, 1997, by and among the VOTING TRUST (the "VOTING TRUST") created under the Second Amended WABCO Voting Trust/Disposition Agreement, dated as of December 13, 1995 (the "VOTING TRUST AGREEMENT"), VESTAR EQUITY PARTNERS, L.P., a Delaware limited partnership ("VESTAR"), HARVARD PRIVATE CAPITAL HOLDINGS, INC., a Massachusetts corporation ("HARVARD"), AMERICAN INDUSTRIAL PARTNERS CAPITAL FUND II, L.P., a Delaware limited partnership ("AIP"), and WESTINGHOUSE AIR BRAKE COMPANY, a Delaware corporation ("WABCO"). The Voting Trust, Vestar, Harvard, AIP and WABCO are sometimes individually referred to as a "PARTY" and collectively the "PARTIES".

WHEREAS, this Agreement amends and restates the Stockholders Agreement dated as of January 31, 1995 (the "Existing Stockholder Agreement") by and among the Voting Trust, Scandinavian Incentive Holdings B.V. ("SIH") and WABCO, and to which Vestar/WABCO Investors, L.P., Vestar Capital Partners, Inc., William E. Kassling, Emilio A. Fernandez, and Incentive AB executed limited joinders;

WHEREAS, concurrently with this Agreement becoming effective Vestar, Harvard, AIP and members of WABCO's management are purchasing 6 million of the shares of Common Stock owned by SIH and WABCO is repurchasing 4 million of the shares of Common Stock owned by SIH (the purchase of such 10 million SIH Shares, the "SIH Repurchase"); and

WHEREAS, the Parties desire to set forth certain agreements with respect to the ownership of Common Stock by the Parties other than WABCO and certain other matters relating to WABCO.

NOW, THEREFORE, in consideration of the promises and mutual covenants hereinafter set forth, the Parties hereby agree as follows:

1. DEFINITIONS

1.1 In addition to the terms defined elsewhere herein, the following terms shall have the following meanings:

1.1.1 "ACT" shall mean the Securities Act of 1933, as amended.

1.1.2 "AFFILIATE" shall mean any entity which is now, or hereinafter becomes controlled by, or in control of, or in common control with, another entity. "CONTROL" shall mean more than fifty percent (50%) of the ownership interest or voting rights of any entity, directly or indirectly.

1.1.3 "AIP Shares" shall mean the shares of Common Stock owned by AIP.

1.1.4 "ASSOCIATE" shall mean any natural person who is a partner, officer, director or employee of (i) another person, (ii) a corporate general partner of a limited partnership or (iii) a company or partnership that controls, is controlled by, or is under common control with, such person. "PERSON" shall mean an individual, corporation, partnership, association, joint-stock company, trust and unincorporated association.

1.1.5 "COMMON STOCK" shall mean shares of common stock, par value \$.01 per share, of WABCO.

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

1.1.7 "HARVARD SHARES" shall mean the shares of Common Stock owned by Harvard.

1.1.8 "PULSE SHARES" shall mean the shares of Common Stock delivered by WABCO pursuant to that certain Asset Purchase Agreement dated as of January 23, 1995, by and among WABCO, Pulse Acquisition Corporation, Pulse Electronics, Incorporated and Pulse Embedded Computer Systems, Inc.

1.1.9 "QUALIFYING PUBLIC OFFERING" shall mean a sale of shares of Common Stock in a bona fide underwritten public offering that is registered under the Act and conducted in the United States in a manner reasonably designed to effect a broad distribution of such shares.

1.1.10 "SEC" shall mean the United States Securities and Exchange Commission.

1.1.11 "SIH SHARES" shall mean the 10,000,000 shares of Common Stock owned by SIH.

1.1.12 "TRUSTHOLDERS" shall mean the holders of Trust Certificates issued by the Voting Trust in exchange for shares of Common Stock.

1.1.13 "VESTAR SHARES" shall mean the shares of Common Stock owned by Vestar or Vestar Capital Partners, Inc.

1.1.14 "VOTING TRUST SHARES" shall mean the shares of Common Stock owned by the Voting Trust.

2. NOTICE OF CERTAIN ACTIVITIES

2.1 Harvard hereby agrees that, so long as a Harvard representative is on the Board of Directors of the Company, Harvard shall provide prompt written notice to the Company if at any time Harvard competes with WABCO in the railway products or rail passenger transit business, PROVIDED, HOWEVER, that this covenant shall only apply with respect to investments by Harvard in excess of \$10,000,000.

2.2 Vestar hereby agrees that, so long as a Vestar representative is on the Board of Directors of the Company, Vestar shall provide prompt written notice to the Company if at any time Vestar or a wholly-owned subsidiary of Vestar competes with WABCO in the railway products or rail passenger transit business; PROVIDED, HOWEVER, that this covenant shall only apply with respect to investments by Vestar or any of its wholly-owned subsidiaries in excess of \$10,000,000.

3. CERTAIN PURCHASES AND CORPORATE MATTERS

3.1 REPURCHASES. On or about the date hereof, (i) WABCO is acquiring from SIH 4,000,000 of the SIH Shares (the "SIH REPURCHASE"), and (ii) Vestar, Harvard, AIP and certain members of WABCO's management are collectively purchasing 6,000,000 of the SIH Shares.

3.2 BY-LAWS. On or before the effective date hereof, the By-Laws of WABCO (the "BY-LAWS") shall be amended to read as set forth in EXHIBIT 3.2 to this Agreement.

4. MANAGEMENT OF WABCO

4.1 BOARD OF DIRECTORS.

4.1.1 COMPOSITION.

(a) Subject to paragraphs (b) through (h) hereof, the Board of Directors of WABCO (the "BOARD") shall consist of such number of persons as is determined from time to time by the affirmative vote of a majority of the Directors then in office.

(b) The Board shall maintain a Nominating Committee, which Nominating Committee shall nominate persons to be elected to the Board as set forth in this Agreement. The Chairman of the Board shall have exclusive authority to select the members of the Board who will serve on the Nominating Committee, subject in any event to the provision in Section 4.1.1(h). At any time that a new Director is elected pursuant to the terms of this Agreement, the remaining Directors then in office shall have an obligation to ratify and approve such elections.

(c) The Nominating Committee shall nominate persons for election to the Board so that the Board shall be comprised of the following: (i) the Chief Executive of WABCO; (ii) another executive officer of WABCO; (iii) at least three individuals who are not employees of WABCO or any of its subsidiaries; (iv) one individual designated by Vestar (the "Vestar Director") (so long as Vestar and its partners, and Vestar Capital and its stockholders and officers, and their respective Affiliates collectively and beneficially own at least 50% of the shares of Common Stock beneficially owned by Vestar and Vestar Capital immediately after the closing of the SIH Repurchase); (v) one individual designated by William E. Kassling (so long as Mr. Kassling

and members of his immediate family and their Affiliates collectively and beneficially own at least 50% of the shares of Common Stock beneficially owned by Mr. Kassling immediately after the closing of the SIH Repurchase); (vi) one individual designated by Harvard (the "Harvard Director") (so long as Harvard and its stockholders and officers and their respective Affiliates collectively and beneficially own at least 50% of the shares of Common Stock beneficially owned by Harvard immediately after the closing of the SIH Repurchase); and (vii) Emilio A. Fernandez (so long as (x) Mr. Fernandez is able and willing to serve and (y) Mr. Fernandez and his immediate family and their Affiliates (the "FERNANDEZ GROUP") collectively and beneficially own at least 50% of the Pulse Shares. So long as Mr. Fernandez meets the qualifications set forth in the foregoing clause (vii), the Chairman of the Board shall direct the Nominating Committee to nominate Mr. Fernandez as a member of the Board of Directors.

(d) If requested by WABCO in order to comply with paragraph (c) above, Vestar, Mr. Kassling and/or Harvard shall cause its designee for Director to resign effective at such time as Vestar, Mr. Kassling or Harvard, as the case may be, no longer has the ability to designate a Director pursuant to paragraph (c) above, and Mr. Fernandez shall resign effective at such time as the Fernandez Group no longer beneficially owns at least 50% of the Pulse Shares.

(e) Vestar, Harvard and Mr. Kassling may, at any time during which their respective right to designate Directors is applicable, cause the removal of any Director designated by it or him and designate a new individual or individuals to serve as Director or Directors by prior written notice to the Nominating Committee, which shall promptly nominate such individual(s) for election to the Board. Except with respect to Mr. Fernandez, in the event of a vacancy on the Board of Directors caused by the death, resignation or removal of a Director prior to the fulfillment of his term, the Party or other person or entity originally designating such Director shall, so long as its right to designate such Director is applicable, designate an individual to serve as a successor Director and shall promptly notify the Nominating Committee of such action in writing, and the Nominating Committee shall promptly nominate such individual for election to the Board. The death, resignation or removal of Mr. Fernandez as a director shall terminate his right to serve on the Board of Directors, and the Fernandez Group shall have no right to designate a successor to fill any vacancy caused by such death, resignation or removal.

(f) Any person designated by Vestar, Harvard, Mr. Kassling or, in the case of Mr. Fernandez, the Chairman of the Board, as provided for herein shall be nominated by the Nominating Committee to be elected to the Board at the stockholders' meeting, or by the Directors already elected to the Board, as the case may be, voting in conformity with such nomination. In furtherance thereof, each of the Voting Trust, Vestar, Harvard, Vestar Capital, AIP, Mr. Kassling, Mr. Fernandez, Robert J. Brooks, Howard J. Bromberg and John M. Meister agrees to vote all of the shares of Common Stock and any other voting securities of WABCO from time to time held by it or him in favor of, and each of the Voting Trust, Harvard, Vestar Capital, AIP, Mr. Kassling, Mr. Fernandez, Mr. Brooks, Mr. Bromberg and Mr. Meister agrees to cause any shares of Common Stock or other WABCO voting securities as to which it or he from time to time has the right to direct the vote to be voted in favor of, and to take any other appropriate steps to cause, the election to the Board of individuals designated by Vestar, Harvard and/or Mr. Kassling and, in the case of Mr. Fernandez, the Chairman of the Board, and nominated by the Nominating Committee in accordance with this Section 4.1.1; PROVIDED, that Mr. Kassling shall not be deemed to control any shares of Common Stock held by the ESOP for purposes of this Section 4.1

(g) Each director elected in accordance with the foregoing paragraphs (b) through (f) shall be elected to one of three classes, as allocated by the Chairman of the Board in his sole discretion.

Each director will be elected to hold office for a term expiring at the third succeeding annual meeting. In all such cases, a Director's term of office shall continue until his successor is duly elected and qualified or until his earlier resignation or removal. Until such time as Vestar designates a new individual in accordance with this Section 4.1.1, James P. Kelley shall be the Vestar Director and shall continue in his current term as a Director. The Harvard Director shall fill the vacancy to be created by Mikael Lilius' resignation from the Board and shall be nominated for a full term expiring in 2000. Each other Director currently serving as such (with the exception of Mr. Lilius) will continue his present term.

(h) Each committee of the Board shall include either the Vestar Director or the Harvard Director (as determined by Harvard and Vestar) as one of its members.

4.1.2 POWERS AND MANAGEMENT.

(a) The Board of Directors shall have full power to control, manage and direct the business of WABCO and to take such actions as may be necessary to further the purposes of WABCO.

(b) The management of the business of WABCO shall be the responsibility of a Chief Executive Officer, to be appointed by the Board of Directors. William E. Kassling shall continue to be the Chief Executive Officer of WABCO and he shall continue to serve as Chief Executive Officer until replaced by the Board of Directors in accordance with the provisions of any employment agreement then in force between WABCO and Mr. Kassling. The Chief Executive Officer of WABCO shall, subject to subsection(a) above, be entitled to make all decisions regarding the ordinary course of business operations of WABCO according to good business practice.

(c) All of the Directors shall have one vote each. A quorum shall be constituted by a majority of the Directors then in office.

5. TRANSFER OF SECURITIES

5.1 NO TRANSFER.

5.1.1 Except as permitted by Section 5.2 hereof, until March 31, 2001, neither Vestar, Harvard, AIP nor the Voting Trust shall sell, transfer, assign, mortgage, change, hypothecate, give away or otherwise dispose of (collectively, "TRANSFER") any Common Stock owned or held by it. Any transfer contrary to the provisions of this Agreement shall be null and void. The foregoing shall not restrict (i) the transferability of interests in the Voting Trust so long as any such transfer does not affect the underlying Common Stock and (ii) the ability of Vestar Capital Partners, Inc. to pledge the 40,000 Vestar Shares currently held by Vestar Capital Partners, Inc.

5.1.2 No transfer of shares of Common Stock by Vestar, Harvard, AIP or the Voting Trust shall be permitted pursuant to Section 5.2 hereof except (i) pursuant to an effective registration statement covering such shares under the Act and any applicable state securities laws, (ii) in a transaction permitted by Rule 144 promulgated under the Act and as to which WABCO has received reasonably satisfactory evidence of compliance with the provisions of Rule 144, (iii) to a person whom the seller reasonably believes is a Qualified Institutional Buyer within the meaning of Rule 144A promulgated under the Act purchasing for its own account or for the account of a Qualified Institutional Buyer that is aware that the transfer is being made in reliance upon Rule 144A promulgated under the Act, or (iv) upon receipt of a legal opinion in form and

substance reasonably acceptable to WABCO rendered by counsel (who may be an employee of the party for whom or on whose behalf the opinion is being rendered) reasonably satisfactory to WABCO to the effect that the transaction does not require registration under the Act and any applicable state securities laws. This Section shall not apply to transfers by Vestar, Harvard or AIP to their respective Affiliates as permitted by Section 5.2.1.

5.1.3 At the request of WABCO, each share certificate for the Common Stock held by Vestar, Harvard, AIP or the Voting Trust shall be provided with the following legend:

"The shares of stock represented by this certificate are subject to, and may be sold, transferred, assigned, mortgaged, changed, hypothecated, given away or otherwise disposed of (collectively, "transferred") only in accordance with, the provisions of the Amended and Restated Stockholders Agreement dated as of March 5, 1997. The shares of stock represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Act"), or any applicable state securities laws, and may not be transferred, and Westinghouse Air Brake Company (the "Company") is not required to give effect to any attempted transfer, except in accordance with the terms of said Stockholders Agreement and (i) pursuant to an effective registration statement covering such security under the Act and any applicable state securities laws, (ii) in a transaction permitted by Rule 144 promulgated under the Act and as to which the Company has received reasonably satisfactory evidence of compliance with the provisions of Rule 144, (iii) to a person whom the seller reasonably believes is a Qualified Institutional Buyer within the meaning of Rule 144A promulgated under the Act purchasing for its own account or for the account of a Qualified Institutional Buyer that is aware that the transfer is being made in reliance upon Rule 144A promulgated under the Act, or (iv) upon receipt of a legal opinion in form and substance reasonably acceptable to the Company rendered by counsel (who may be an employee of the party for whom or on whose behalf the opinion is being rendered) reasonably satisfactory to the Company to the effect that the transaction does not require registration under the Act and any applicable state securities laws."

5.2 TRANSFERS ALLOWED.

5.2.1 On or prior to March 31, 1998 the Harvard Shares, the Vestar Shares and the AIP Shares may only be transferred (i) to Affiliates or partners of such transferor who agree in a writing, in form and substance reasonably satisfactory to WABCO, to be bound by and subject to the provisions of this Agreement, (ii) in connection with the exercise of "piggyback" registration rights granted to such transferor by WABCO, or (iii) in connection with any merger, consolidation, reorganization, recapitalization or similar transaction or any tender or exchange offer approved or recommended by WABCO's Board of Directors. After March 31, 1998 the Harvard Shares, the Vestar Shares and the AIP Shares may be transferred as permitted under the foregoing clauses (i), (ii) and (iii) and (w) in a Qualifying Public Offering, (x) in any disposition to a person which, to the best knowledge of Harvard, Vestar or AIP, as the case may be, after due inquiry (it being understood that Harvard, Vestar and AIP may rely on representations and warranties made by such person and such person's Schedule 13D or Schedule 13G filings with the SEC unless Harvard, Vestar or AIP has actual knowledge that such Schedules are not accurate), will not beneficially own, together with such person's Affiliates, a number of shares of Common Stock then outstanding on a fully diluted basis which, when combined with the number of Harvard Shares, Vestar Shares or AIP Shares, as the case may be, being disposed of in such disposition would constitute more than 6% of the shares of Common Stock then outstanding on a

fully diluted basis, (y) to or through any broker, underwriter, placement agent or other financial intermediary, acting in such capacity, which undertakes in a writing reasonably satisfactory to WABCO to effect any subsequent transfer by it of such Harvard Shares, AIP Shares or Vestar Shares, as the case may be, in a Qualifying Public Offering or (z) to any person (other than any person which, to the best knowledge of Harvard, Vestar or AIP, as the case may be, after due inquiry, is a competitor or customer of WABCO or has, prior to such sale, initiated or been an active participant in, an unsolicited change of control transaction by tender offer, proxy contest, consent solicitation or otherwise with respect to WABCO), provided that WABCO shall have a right of first offer with respect to any Harvard Shares, Vestar Shares or AIP Shares, as the case may be, proposed to be sold in accordance with this clause (z) pursuant to Section 5.2.2 hereof unless WABCO shall have approved of such transfer in writing.

5.2.2 If either Harvard, Vestar or AIP (the "SELLING PARTY") proposes to sell any Harvard Shares, Vestar Shares or AIP Shares, as the case may be pursuant to clause (z) of Section 5.2.1 hereof (a "THIRD PARTY SALE"), the Selling Party shall not transfer such Shares (the "OFFERED SHARES") without first offering the Offered Shares to WABCO in accordance with the following procedures. The Selling Party shall provide to WABCO written notice of its intention to sell (the "SALE NOTICE"), which Sale Notice shall include a request for WABCO to make a written offer (the "WABCO OFFER") to purchase for cash all of the Offered Shares. WABCO shall have the right to make a WABCO Offer for the Offered Shares by notifying the Selling Party (such notice being referred to as an "ELECTION NOTICE") at any time within 35 days of WABCO's receipt of the Sale Notice of WABCO's intent to make such WABCO Offer; PROVIDED, that any such Election Notice from WABCO shall be irrevocable, contain all of the material terms and conditions of the sale and be accompanied by a commitment letter from a bank or other responsible source of financing for such purchase or a certificate signed by the Chief Financial Officer of WABCO certifying that WABCO has sufficient funds to purchase the Offered Shares. If WABCO exercises its right to purchase the Offered Shares pursuant to the foregoing sentence, the closing of the purchase of the Offered Shares by WABCO shall take place at the principal offices of WABCO on a date specified by WABCO in the Election Notice, but in any event not later than 100 days after receipt by WABCO of the Sale Notice. On the closing date for such purchase, the Selling Party shall deliver the Offered Shares to WABCO free and clear of all liens, encumbrances and security interests and, in connection therewith, the Selling Party shall execute and deliver such agreements, documents and instruments, including stock powers, as WABCO shall reasonably require. If WABCO fails to deliver an Election Notice within 35 days of receipt by WABCO of the Selling Party Sale Notice or if WABCO otherwise advises the Selling Party in writing that WABCO does not intend to exercise its right to acquire the Offered Shares, the Selling Party shall be entitled to sell the Offered Shares to any other person without any requirements as to the terms and conditions of such sale; PROVIDED, that if the Selling Party does not sell the Offered Shares by the earlier to occur of 180 days from the expiration of WABCO's right to deliver an Election Notice or 180 days from written notice from WABCO that it does not intend to exercise its right to acquire the Offered Shares, the provisions of this Section 5.2.2 shall again apply to the Offered Shares.

If WABCO delivers its Election Notice for the Offered Shares within 35 days of receipt by WABCO of the Selling Party Sale Notice, the Selling Party shall be entitled to offer the Offered Shares to any person pursuant to a Third Party Sale at a price that is more favorable to the Selling Party than those set forth in the Election Notice, provided that any such sale must occur within 180 days of the date of delivery of the Election Notice.

Notwithstanding the foregoing, if the Selling Party's Sale Notice is in connection with any tender offer or exchange offer for outstanding Common Stock, WABCO shall be required to the extent WABCO desires to purchase the Offered Shares to exercise its right to so purchase, and to close such purchase of, the Offered Shares by the date which is the earlier of (i) 10 days following receipt of such Sale Notice and (ii) the business day prior to the expiration of such tender or exchange offer.

5.2.3 After March 31, 1998 Harvard, Vestar and AIP shall be permitted to sell Shares pursuant to and subject to the limitations set forth in Rule 144 of the SEC under the Act.

5.2.4 Notwithstanding any provision herein to the contrary, Trustholders (other than William E. Kassling, Robert J. Brooks, Howard J. Bromberg and John M. Meister, who shall be subject to Section 5.2.5 below) shall, to the extent permitted by the Voting Trust Agreement, be permitted to transfer Voting Trust Shares, withdraw Voting Trust Shares from the Voting Trust, and/or sell or otherwise dispose of Shares at any time. Upon expiration of the Voting Trust, Voting Trust Shares may be distributed in accordance with the terms thereof and such Voting Trust Shares will no longer be subject to Section 5.1.

5.2.5 (a) Except as permitted by Section 5.2.5(b), 5.2.5(c) and 5.2.5(d), until March 31, 2001, none of Messrs. Kassling, Fernandez, Brooks, Bromberg and Meister (collectively, the "Management Group") shall sell, transfer, assign, mortgage, change, hypothecate, give away or otherwise dispose of (collectively "transfer") any shares of Common Stock beneficially owned by him or any of his interest in the Voting Trust (treating any Common Stock held by the Voting Trust for the account of any member of the Management Group as Common Stock owned by such member).

(b) Subject to Section 5.2.5(f) below, each member of the Management Group shall be permitted to transfer shares of Common Stock beneficially owned by him at any time in accordance with the terms of Section 8 of the Voting Trust Agreement, as in effect on the date hereof, regardless of whether such person is a participant in the Voting Trust. Each member of the Management Group who is also a participant in the Voting Trust shall be permitted to withdraw shares of Common Stock from the Voting Trust at any time in accordance with the terms of the Voting Trust Agreement, as in effect on the date hereof.

(c) So long as any member of the Management Group continues to be an employee of WABCO or any of its subsidiaries, such member, together with his transferees permitted under this Section 5.2.5, may transfer during each 12-month period following the effective date of this Agreement, in the aggregate, 5% of the shares of Common Stock beneficially owned by such member on the date of this Agreement.

(d) In the event that a member of the Management Group's employment with WABCO and its subsidiaries is terminated for any reason, such member, together with his transferees permitted under this Section 5.2.5, may transfer during each 12-month period following the effective date of such termination, in the aggregate, 20% of the shares of Common Stock beneficially owned by such member on the effective date of such termination. The restriction in this Section 5.2.5(d) may be waived by the Chairman of the Board of WABCO as to any member of the Management Group if such member delivers to the Chairman a request for waiver indicating that such waiver is required in order to alleviate personal hardship. The decision as to whether and to what extent to grant a waiver shall be in the sole discretion of the Chairman.

(e) Each member of the Management Group agrees not to effect any public sale or distribution of shares of Common Stock owned by him or any similar security of the Company, or any securities convertible into or exchangeable or exercisable for such securities, or any securities into which such securities are convertible or for which such securities are exchangeable or exercisable, during the 10 days prior to, and during the 90 day period beginning on, the effective date of any registration statement in which "Holders" (as defined in that certain Common Stock Registration Rights Agreement of even date herewith among the Company, Vestar, Harvard, AIP, the Voting Trust and certain other holders of shares of Common Stock) are participating in connection with an underwritten public offering of shares of Common Stock (except as part of such registration), if and to the extent reasonably requested in writing (with reasonable prior notice) by the lead managing underwriter of the underwritten public offering.

(f) Each member of the Management Group agrees that no shares of Common Stock (or any interests in the Voting Trust) beneficially owned by him, his spouse or his minor children will be transferred in a transfer permitted by this Section 5.2.5 (other than subsections (c) and (d) above) unless the transferee agrees in a writing, in form and substance reasonably satisfactory to WABCO, to be bound by and subject to the provisions of this Section 5.2.5.

(g) Shares of Common Stock beneficially owned by the Management Group are as follows:

William E. Kassling	1,548,336 shares
Emilio A. Fernandez	643,444 shares
Robert J. Brooks	437,300 shares
Howard J. Bromberg	640,200 shares
John M. Meister	251,000 shares

It is agreed that the foregoing shares include all shares of Common Stock controlled by the Management Group and their respective spouses and minor children and that all of the foregoing shares shall be subject to this Agreement.

(h) Shares of Common Stock held by the ESOP shall not be deemed to be beneficially owned by any member of the Management Group for purposes of this Agreement. Shares of Common Stock held in the Voting Trust (other than shares deposited by members of the Management Group in the Voting Trust) also shall not be deemed to be beneficially owned by any member of the Management Group for purposes of this Agreement.

6. ASSIGNMENT

6.1 This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties to this Agreement and their respective successors and assigns.

6.2 Neither this Agreement nor any of the rights, interests and obligations hereunder shall be assignable by any Party without the prior written consent of the other Parties; provided, however, Vestar, Harvard and AIP shall have the right to assign their rights, interests and obligations hereunder to their respective Affiliates from time to time so long as such Affiliates agree in a writing, in form and substance reasonably satisfactory to WABCO, to be bound by and subject to the provisions of this Agreement.

7. TERM

7.1 This Agreement shall continue in effect (unless terminated by a mutual agreement of the Parties) until March 31, 2007.

8. CONCILIATION AND ARBITRATION

8.1 CONCILIATION. If any dispute, claim or difference arises out of or relating to this Agreement, or as to the rights and liabilities of the Parties hereunder or as to the breach or invalidity hereof, or in connection with the construction of this Agreement (each such event being hereinafter called a "DISPUTE"), the Parties shall use their best efforts to resolve the Dispute and, if they so desire, consult outside experts for assistance in arriving at such a resolution.

8.2 ARBITRATION. (a) Any Dispute shall be finally settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA") effective as of the commencement of the arbitration (the "RULES"), except as such Rules may be modified as provided in this Agreement. The arbitration shall be held in New York, New York, unless the parties mutually agree to have the arbitration held elsewhere, and judgment upon the award made therein may be entered by any court having jurisdiction thereof; PROVIDED, HOWEVER, that nothing contained in this paragraph shall be construed to limit or preclude a party from bringing any action in any court of competent jurisdiction for injunctive or other provisional relief to compel another party to comply with its obligations under this Agreement during the pendency of the arbitration proceedings. The arbitral tribunal shall be composed of three(3) arbitrators, who shall be experienced commercial litigators admitted to practice law in the State of New York. If the Dispute is between two of the Parties, each Party shall appoint one arbitrator. If the Dispute is among more than two Parties hereto, the Parties shall mutually agree upon and appoint two arbitrators. If such Parties fail to nominate an arbitrator (in the case of a two-party Dispute) or if the Parties fail to agree upon two arbitrators (in the case of a more than two Party Dispute) in accordance with the two preceding sentences within thirty(30) days from the date when the notice of intention to arbitrate referred to in Rule 6 of the Rules (the "COMMENCEMENT NOTICE") has been received by the Respondent (as defined in the Rules) such appointment shall, upon written request by either or any Party (as the case may be) to the AAA, be made in accordance with Rule 14 of the Rules. The two arbitrators thus appointed shall attempt to agree upon the third arbitrator to act as chairperson of the arbitration tribunal. If said two (2) arbitrators fail to appoint the chairperson within thirty (30) days from the date of appointment of the second arbitrator, upon written request of either party to the AAA, such appointment shall be made in accordance with Rule 15 of the Rules. The arbitrators shall have no power to waive, alter, amend, revoke, or suspend any of the provisions of this Agreement, provided, however, that the arbitrators shall have the power to decide all questions with respect to the interpretation and validity of this Subsection 8.2. An arbitrator may not act as an advocate for the party nominating him, and all three arbitrators shall be impartial and unbiased. A majority vote by the three arbitrators shall be required on any decision made by them; PROVIDED, HOWEVER, that lacking such a majority in the case of questions of amounts of dollar or other quantities, the vote for the greatest amount or quantity shall be deemed to be a vote for the amount or quantity next in magnitude in order to form a majority for such vote. The arbitrators shall permit such discovery as they shall determine is appropriate in the circumstances, taking into account the needs of the Parties and the desirability of making discovery expeditious and cost-effective. Any such discovery shall be limited to information directly relevant to the controversy or claim in arbitration and shall be concluded within thirty (30) days after the appointment of the arbitration panel. This agreement to arbitrate shall be binding upon the heirs or successors and the assigns and any

trustee, receiver or executor of each party hereto. Except to the extent required by law or court or administrative order, no party, arbitrator, representative, counsel or witness shall disclose or confirm to any person not present at the arbitration hearings, any information about the arbitration proceeding or hearings, including the names of the parties and arbitrators, the nature and amount of the claims, the financial condition of any party, the expected date of hearing or the award made.

(b) Subject to and not in any way limiting subsection (a) hereof, each of the parties hereto irrevocably consents to personal jurisdiction in any action brought in connection with this Agreement in the United States District Court for the Southern District of New York or any New York court of competent jurisdiction, including, but not limited to, any action to enforce an award rendered pursuant to subsection (a) hereof, and the Voting Trust and WABCO each hereby appoints Reed Smith Shaw & McClay, Attention: Ruth S. Perfido, Esq. as its agent for service of process, Vestar hereby appoints Vestar Capital Partners, Inc., Attention: Robert L. Rosner as its agent for service of process, Harvard hereby appoints Ropes & Gray, Attention: Larry J. Rowe as its agent for service of process and AIP hereby appoints American Industrial Partners Corporation, Attention: Ken Pereira as its agent for service of process. The submission of the Parties to jurisdiction as set forth in this subsection (b) does not constitute and shall not be deemed a consent to jurisdiction for any purpose other than those expressly set forth in this Agreement.

9. GENERAL PROVISIONS

9.1 NOTICES. Any notice, request, demand, waiver or other communication required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given (i) when delivered by hand, (ii) five business days after it is mailed certified or registered mail, return receipt requested with postage prepaid, (iii) when answered back if sent by telecopy (with receipt confirmed) or (iv) three business days after it is sent by express delivery service, as follows:

IF TO VESTAR:

c/o Vestar Capital Partners, Inc.
Seventeenth Street Plaza
1225 17th Street
Suite 1600
Denver, CO 80202

Attention: James P. Kelley
Fax: 303-292-6639

With a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017

Attention: Peter J. Gordon, Esq.
Fax: 212-455-2502

IF TO THE VOTING TRUST:

c/o Westinghouse Air Brake Company
1001 Air Brake Avenue
Wilmerding, PA 15148

Attention: William E. Kassling
Fax: 412-825-1156

With a copy to:

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

Attention: David L. DeNinno, Esq.
Fax: 412-288-3063

IF TO HARVARD:

c/o Harvard Private Capital Group, Inc.
600 Atlantic Avenue, 26th Floor
Boston, Massachusetts 02100

Attention: John Sallay
Fax: 617-523-1063

With a copy to:

Ropes & Gray
One International Place
Boston, Massachusetts 02110-26242

Attention: Larry J. Rowe, Esq.
Fax: 617-951-7050

IF TO AIP:

American Industrial Partners
551 Fifth Avenue
Suite 3800
New York, NY 10176

Attention: Robert J. Klein
Fax: 212-986-5099

With a copy to:

American Industrial Partners
One Maritime Plaza
Suite 2525
San Francisco, CA 94111

Attention: Ken Pereira
Fax: 415-788-5302

IF TO WABCO:

Westinghouse Air Brake Company
1001 Air Brake Avenue
Wilmerding, Pennsylvania 15148

Attention: William E. Kassling
Fax: (412) 825-1156

With a copy to:

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

Attention: David L. DeNinno, Esq.
Fax: 412-288-3063

Any Party may change its address specified for notices here in by designating a new address by notice in accordance with this Section.

9.2 WAIVER. Any failure on the part of either Party hereto to comply with any of its obligations, agreement or conditions hereunder may be waived by the other Party. No waiver of any provision of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing wavier.

9.3 BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective heirs, legal representatives, executors, administrators, successors and assigns as permitted by the terms of this Agreement.

9.4 SEVERABILITY. If any provision of this Agreement should be or become fully or partly invalid or unenforceable for any reason whatsoever or violate any applicable law, this Agreement is to be considered divisible as to such provision and such provision is to be deleted from this Agreement, and the remainder of this Agreement shall be deemed valid and binding as if such provision were not included herein. There shall be substituted for any such provision deemed to be deleted a suitable provision which, as far as it is legally possible, comes nearest to what the Parties desired or would have

desired according to the sense and purpose of this Agreement had this been considered when concluding this Agreement.

9.5 HEADINGS. The section and other headings in this Agreement are inserted solely as a matter of convenience and for reference only, and do not constitute a part of this Agreement.

9.6 ENTIRE AGREEMENT. This Agreement constitutes the entire agreement among the Parties as to the subject matter hereof and supersedes any other agreements, representations, warranties, or communications, whether oral or written, among the Parties (or their Affiliates) relating to the subject matter hereof. Each of WABCO, the other parties hereto and, by its execution and delivery of its termination letter, SIH hereby acknowledges and agrees that the Existing Stockholders Agreement is amended and restated in full by this Agreement and that all obligations owed by SIH and its Affiliates to WABCO under the Existing Stockholders Agreement (other than under Section 10 thereof) are terminated effective upon the effectiveness of this Agreement.

9.7 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware and such laws shall also govern in the settlement by arbitration or otherwise of any and all disputes arising between the Parties as well as the validity of the arbitration clause in Section 11 above.

9.8 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

9.9 EXHIBITS INCORPORATED. All Exhibits attached hereto are incorporated herein by reference, and all blanks in such Exhibits, if any, will be filled in as required in order to consummate the transactions contemplated herein and in accordance with this Agreement.

9.10 MODIFICATIONS. No modification, alteration, addition, change or amendment of the terms of this Agreement shall be binding on the Parties unless reduced to writing and duly executed by each of the Parties hereto in the same manner as the execution of this Agreement.

9.11 EFFECT OF STOCK SPLITS, STOCK DIVIDENDS, ETC. If the outstanding shares of Common Stock shall be changed into or exchangeable for a different number or kind of shares of stock or other securities of WABCO or another corporation, or if the outstanding number of shares of Common Stock is increased or decreased, in each case as a result of a stock dividend, stock split-up, reverse stock split-up, reorganization, reclassification, combination of shares, merger, consolidation or like event (collectively, a "STOCK EVENT"), the provisions of this Agreement shall apply to the shares or other securities acquired pursuant to such Stock Event (the "ADDITIONAL SHARES") to the extent (but only to the extent) that such provisions apply to the shares of Common Stock on which or as a result of which the Additional Shares are issued or paid to the holders thereof.

9.12. EFFECTIVENESS. This Agreement shall become effective upon the consummation of the SIH Repurchase.

IN WITNESS WHEREOF, each party hereto has executed or caused this Agreement to be executed on its behalf, all on the day and year first above written.

VESTAR EQUITY PARTNERS, L.P.

By: VESTAR ASSOCIATES, L.P., its General Partner

By: VESTAR ASSOCIATES CORPORATION, its General Partner

/s/ JAMES P. KELLEY

By: James P. Kelley
Title: Managing Director

HARVARD PRIVATE CAPITAL HOLDINGS, INC.

By: /s/ MARK A. ROSEN

Its: AUTHORIZED SIGNATORY

By: /s/ MICHAEL B. EISENSON

Its: AUTHORIZED SIGNATORY

VOTING TRUST

By: /s/ ROBERT J. BROOKS

Its: TRUSTEE

WESTINGHOUSE AIR BRAKE COMPANY

By: /s/ ROBERT J. BROOKS

Its: VICE PRESIDENT AND SECRETARY

AMERICAN INDUSTRIAL PARTNERS
CAPITAL FUND II, L.P.

By: American Industrial Partners II, L.P., its
General Partner

By: American Industrial Partners
Corporation, its General Partner

/s/ THEODORE C. ROGERS

By: Theodore C. Rogers
Title: Chairman

JOINDER

Vestar Capital Partners, Inc. joins in this Amended and Restated Stockholders Agreement for the limited purpose of agreeing to be bound by and to be entitled to the benefits of Sections 2, 4 and 5 hereof.

VESTAR CAPITAL PARTNERS, INC.

By: /s/ JAMES P. KELLEY

Name: James P. Kelley
Title: Managing Director

JOINDER

The undersigned join in this Amended and Restated Stockholders Agreement for the limited purpose of agreeing to be bound by and to be entitled to the benefits of Sections 4 through 9 hereof.

/s/ WILLIAM E. KASSLING

William E. Kassling

DAVIDECO, INC.

By: /s/ WILLIAM E. KASSLING

Its: DIRECTOR

/s/ EMILIO A. FERNANDEZ

Emilio A. Fernandez

/s/ OFELIA FERNANDEZ

Ofelia Fernandez

/s/ ROBERT J. BROOKS

Robert J. Brooks

SUEBRO, INC.

By: /s/ ROBERT J. BROOKS

Its: PRESIDENT

/s/ JOHN M. MEISTER

John M. Meister

AMENDMENT NO. 1 TO AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

THIS AMENDMENT NO. 1, dated as of March 28, 1997 TO THE AMENDED AND RESTATED STOCKHOLDERS AGREEMENT (this "Amendment"), dated as of March 5, 1997, by and among the VOTING TRUST (the "Voting Trust") created under the Second Amended WABCO Voting Trust/Disposition Agreement, dated as of December 13, 1995 (the "Voting Trust Agreement"), VESTAR EQUITY PARTNERS, L.P., a Delaware limited partnership ("Vestar"), HARVARD PRIVATE CAPITAL HOLDINGS, INC., a Massachusetts corporation ("Harvard"), AMERICAN INDUSTRIAL PARTNERS CAPITAL FUND II, L.P., a Delaware limited partnership ("AIP"), and WESTINGHOUSE AIR BRAKE COMPANY, a Delaware corporation ("WABCO").

W I T N E S S E T H A T:

WHEREAS, the parties hereto have previously entered into that certain Amended and Restated Stockholders Agreement (the "Stockholders Agreement"), dated as of March 5, 1997; and

WHEREAS, the parties hereto executed the Stockholders Agreement based upon the understanding that Howard J. Bromberg ("Mr. Bromberg") would execute a joinder to such Stockholders Agreement; and

WHEREAS, it is now the understanding of the parties hereto that Mr. Bromberg will not be asked to execute such a joinder; and

WHEREAS, the parties hereto wish to amend the Stockholders Agreement to delete references to Mr. Bromberg from such Stockholders Agreement.

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants hereinafter set forth and intending to be legally bound hereby, agree as follows:

Section 1. AMENDMENTS.

Section 4.1.1(f) of the Stockholders Agreement is hereby amended in its entirety to read as follows:

Any person designated by Vestar, Harvard, Mr. Kassling or, in the case of Mr. Fernandez, the Chairman of the Board, as provided for herein shall be nominated by the Nominating Committee to be elected to the Board at the stockholders' meeting, or by the Directors already elected to the Board, as the case may be, voting in conformity with such nomination. In furtherance thereof, each of the Voting Trust, Vestar, Harvard, Vestar Capital, AIP, Mr. Kassling, Mr. Fernandez, Robert J. Brooks and John M. Meister agrees to vote all of the shares of Common Stock and any other voting securities of WABCO from time to time held by it or him in favor of, and each of the Voting Trust, Harvard, Vestar Capital, AIP, Mr. Kassling, Mr. Fernandez, Mr. Brooks and Mr. Meister agrees to cause any shares of Common Stock or other WABCO voting securities as to which it or he from time to time has the right to direct the vote to be voted in favor of, and to take any other appropriate steps to cause, the election to the Board of individuals

designated by Vestar, Harvard and/or Mr. Kassling and, in the case of Mr. Fernandez, the Chairman of the Board, and nominated by the Nominating Committee in accordance with this Section 4.1.1; provided, that Mr. Kassling shall not be deemed to control any shares of Common Stock held by the ESOP for purposes of this Section 4.1

Section 5.2.4 of the Stockholders Agreement is hereby amended in its entirety to read as follows:

Notwithstanding any provision herein to the contrary, Trustholders (other than William E. Kassling, Robert J. Brooks and John M. Meister, who shall be subject to Section 5.2.5 below) shall, to the extent permitted by the Voting Trust Agreement, be permitted to transfer Voting Trust Shares, withdraw Voting Trust Shares from the Voting Trust, and/or sell or otherwise dispose of Shares at any time. Upon expiration of the Voting Trust, Voting Trust Shares may be distributed in accordance with the terms thereof and such Voting Trust Shares will no longer be subject to Section 5.1.

Section 5.2.5(a) of the Stockholders Agreement is hereby amended in its entirety to read as follows:

Except as permitted by Section 5.2.5(b), 5.2.5(c) and 5.2.5(d), until March 31, 2001, none of Messrs. Kassling, Fernandez, Brooks and Meister (collectively, the "Management Group") shall sell, transfer, assign, mortgage, change, hypothecate, give away or otherwise dispose of (collectively "transfer") any shares of Common Stock beneficially owned by him or any of his interest in the Voting Trust (treating any Common Stock held by the Voting Trust for the account of any member of the Management Group as Common Stock owned by such member); provided, however, that members of the Management Group also shall be permitted to transfer at any time shares of Common Stock in the circumstances described in clauses (i), (ii) and (iii) of the first sentence of Section 5.2.1 hereof.

Section 5.2.5(g) of the Stockholders Agreement is hereby amended in its entirety to read as follows:

Shares of Common Stock beneficially owned by the Management Group are as follows:

William E. Kassling	1,548,336 shares
Emilio A. Fernandez	643,444 shares
Robert J. Brooks	437,300 shares
John M. Meister	251,000 shares

It is agreed that the foregoing shares include all shares of Common Stock controlled by the Management Group and their respective spouses and minor children and that all of the foregoing shares shall be subject to this Agreement.

Section 2. MISCELLANEOUS. Except as expressly set forth herein, the terms and provisions of the Stockholders Agreement are and shall remain in full force and effect.

Section 3. GOVERNING LAW. This Amendment shall be governed by and construed in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, the Parties hereto, by their officers thereunto duly authorized, have executed and delivered this Amendment as of the day and year first above written.

VESTAR EQUITY PARTNERS, L.P.

By: VESTAR ASSOCIATES, L.P., its General Partner

By: VESTAR ASSOCIATES CORPORATION, its General Partner

/s/ JAMES P. KELLEY

By: James P. Kelley
Title: Managing Director

HARVARD PRIVATE CAPITAL HOLDINGS, INC.

By: /s/ MARK A. ROSEN

Its: Authorized Signatory

By: /s/ MICHAEL R. EISENSEN

Its: Authorized Signatory

VOTING TRUST

By: /s/ ROBERT J. BROOKS

Its: Trustee

WESTINGHOUSE AIR BRAKE COMPANY

By: /s/ ROBERT J. BROOKS

Its: Vice President And Secretary

AMERICAN INDUSTRIAL PARTNERS
CAPITAL FUND II, L.P.

By: American Industrial Partners II, L.P.,
its General Partner

By: American Industrial Partners
Corporation, its General Partner

/s/ THEODORE C. ROGERS

By: Theodore C. Rogers
Title: Chairman

COMMON STOCK
REGISTRATION RIGHTS AGREEMENT

This COMMON STOCK REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of March 5, 1997, is made and entered into by Westinghouse Air Brake Company, a Delaware corporation (the "Company"), Harvard Private Capital Holdings, Inc., a Massachusetts corporation ("Harvard"), American Industrial Partners Capital Fund II, L.P., a Delaware limited partnership ("AIP"), the Voting Trust (the "Voting Trust") created under the Second Amended WABCO Voting Trust/Disposition Agreement, dated as of December 13, 1995, Vestar Equity Partners, L.P., a Delaware limited partnership ("Vestar"), Vestar Capital Partners, Inc. ("Vestar Capital"), Emilio A. Fernandez, Jr., Emilio A. Fernandez, Jr., as custodian for Eric A. Fernandez, and Ofelia B. Fernandez (collectively, the "Pulse Shareholders").

WHEREAS, the parties hereto other than Harvard, Vestar and AIP are parties to that certain Common Stock Registration Rights Agreement dated as of January 31, 1995 (the "Existing Registration Rights Agreement");

WHEREAS, concurrently with this Agreement becoming effective Vestar, Harvard, AIP and certain members of the Company's management are purchasing 6 million of the shares of Company common stock, par value \$.01 per share (the "Common Stock") owned by Scandinavian Incentive Holding B.V. ("SIH") and the Company is redeeming 4 million of the shares of Common Stock owned by SIH (such purchase and redemption being referred to herein collectively as the "SIH Repurchase");

WHEREAS, the Company believes that the SIH Repurchase is in the best interest of the Company; and

WHEREAS, the parties hereto have requested, and the Company has agreed to provide, the registration rights set forth herein;

NOW, THEREFORE, in consideration of the premises, the covenants and agreements contained herein and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company, Harvard, Vestar, Vestar Capital, AIP, the Pulse Shareholders and the Voting Trust hereby agree as follows:

1. DEFINITIONS. As used in this agreement, the following capitalized terms shall have the following respective meanings:

(a) "AFFILIATE" shall mean, when used with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

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

(c) "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

(d) "HOLDER" shall mean (i) each of Harvard, Vestar, Vestar Capital, AIP, the Voting Trust, the Pulse Shareholders (so long as any such Person is a holder of Registrable Securities) and (ii) any transferee (or subsequent transferee) of Registrable Securities from persons identified in clause (i), who agrees in a writing reasonably satisfactory in form and substance to the Company to be bound by the provisions of this Agreement.

(e) "PERSON" shall mean an individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

(g) "PULSE SHARES" shall mean the shares of Common Stock delivered by the Company to Pulse Electronics and Pulse Computer pursuant to that certain Asset Purchase Agreement, dated as of January 23, 1995, by and among the Company, Pulse Acquisition Corporation, Pulse Electronics and Pulse Computer.

(h) "REGISTRABLE SECURITIES" shall mean the Securities. As to any particular Registrable Securities, such Securities shall cease to be Registrable Securities when (i) a registration statement with respect to the sale of such Securities shall have become effective under the Securities Act and such Securities shall have been disposed of in accordance with such registration statement, (ii) they shall have been otherwise transferred or sold to the public, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent disposition of them shall not require registration of them under the Securities Act or (iii) they shall have ceased to be outstanding.

(i) "REGISTRATION EXPENSES" shall mean all expenses incident to performance of or compliance with this Agreement, including, without limitation, (i) all SEC and stock exchange or National Association of Securities Dealers, Inc. registration, listing and filing fees, (ii) all fees for and expenses of complying with securities or blue sky laws (including fees and disbursements of counsel for the underwriters in connection with blue sky qualifications of the Registrable Securities), (iii) all word processing, duplicating, printing, messenger and delivery expenses, (iv) all fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange pursuant to clause (vii) of Section 3, (v) the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits and/or "cold comfort" letters required by or incidental to such performance and compliance, (vi) the fees and disbursements of one counsel selected by Holders of a majority of the Registrable Securities sought to be registered, such counsel to be reasonably satisfactory to the Company, and (vii) any fees and disbursements of underwriters customarily paid by the issuers or sellers of securities, but excluding underwriting discounts and commissions payable with respect to the Registrable Securities and any applicable transfer taxes.

(j) "SECURITIES" shall mean, collectively, the shares of Common Stock being acquired in the SIH Purchase (other than the four million shares being redeemed by the Company), the Pulse Shares beneficially owned by the Pulse Shareholders and the shares of Common Stock held from time to time in the Voting Trust and any other shares of Common Stock which may be owned by Holders from time to time.

(k) "SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

(l) "SEC" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act or the Exchange Act.

(m) "SUPPLEMENTAL DEMAND" shall mean a request by Harvard, the Voting Trust or Vestar pursuant to Section 2(a), 2(b) or 2(c) hereof, as the case may be (other than a first or second demand thereunder), for registration of Registrable Securities pursuant to a Form S-3 Registration Statement at a time when the Company is eligible to use Form S-3 for registration of such Registrable Securities.

2. DEMAND REGISTRATION.

(a) HARVARD DEMAND. Harvard shall have the right to make two requests to the Company for the registration of Registrable Securities owned by Harvard, upon the terms and conditions set forth herein. Harvard's first request (the "First Harvard Demand") may be made at any time commencing after June 30, 1998. Harvard's second request (the "Second Harvard Demand") may be made at any time commencing one year after the consummation of any public offering of the Registrable Securities made in connection with the exercise of the First Harvard Demand. One or both of the Harvard demands may be made by an Affiliate of Harvard to which Registrable Securities owned by Harvard have been transferred, but in no event shall Harvard and such Affiliate be permitted to make more than two demands in the aggregate pursuant to this Section 2(a). Harvard also shall be permitted to make an unlimited number of Supplemental Demands.

(b) VOTING TRUST DEMANDS. The Voting Trust shall have the right to make two requests to the Company for the registration of Registrable Securities held by the Voting Trust, upon the terms and conditions set forth herein. The Voting Trust's first and second (the "First Voting Trust Demand" and "Second Voting Trust Demand") requests maybe made at any time that the First Harvard Demand and the Second Harvard Demand, respectively, may be made. The Voting Trust also shall be permitted to make an unlimited number of Supplemental Demands.

(c) VESTAR DEMANDS. Vestar shall have the right to make two requests to the Company for the registration of Registrable Securities owned by Vestar or Vestar Capital, upon the terms and conditions set forth herein. Vestar's first and second (the "First Vestar Demand" and "Second Vestar Demand") requests may be made at any time that the First Harvard Demand and the Second Harvard Demand, respectively, may be made. One or both of the Vestar demands may be made by an Affiliate of Vestar to which Registrable Securities owned by Vestar have been transferred, but in no event shall Vestar and such Affiliate be permitted to make more than two demands in the aggregate pursuant to this Section 2(c). Vestar also shall be permitted to make an unlimited number of Supplemental Demands.

(d) ACTIONS UPON DEMAND. Upon the written request of Harvard, the Voting Trust or Vestar, at any time at which a demand may be made in accordance with paragraph (a), (b), or (c) above, requesting that the Company register under the Securities Act all or part of the Registrable Securities held by such Holder and specifying the intended method of disposition thereof, the Company will promptly give written notice (the "Notice") of such requested registration to the other Holders of Registrable Securities. The Company will include in such registration all Registrable Securities of any Holder with respect to which the Company has received written requests for inclusion therein within 15 business days after the receipt by such Holder of the Notice (which request shall specify the Registrable Securities intended to be disposed of by such Holder). The Company thereupon will, as expeditiously as possible, use its reasonable best efforts to effect the registration under the Securities Act of the Registrable Securities so as to permit the disposition (in accordance with the intended method thereof as aforesaid) of the Registrable Securities so to be registered.

(e) INCIDENTAL REGISTRATION. (i) If the Company at any time proposes to register any of its securities under the Securities Act (other than pursuant to subsection (a), (b) or (c) of this Section 2) on any form other than Form S-4 or S-8 (or any similar form then in effect) for sale for its own account or otherwise, and if the registration form proposed to be used may be used for the registration of Registrable Securities, the Company will each such time give prompt written notice to all Holders of Registrable Securities of its intention to do so. Upon the written request of any such Holder made within 30 days after the receipt of any such notice (which request shall specify the Registrable Securities intended to be disposed of by such Holder), the Company will use its reasonable best efforts to cause all such Registrable Securities, the Holders of which shall have so requested the registration thereof, to be registered under the Securities Act (with the securities at the time proposed to be registered for sale for the Company's own account or otherwise), to the extent requisite to permit

the sale or other disposition (in accordance with the intended methods thereof as aforesaid) by the Holders of the Registrable Securities to be so registered).

No registration effected pursuant to a request or requests referred to in this subsection (e) shall be deemed to have been effected pursuant to subsection (a), (b) or (c) of this Section 2.

Notwithstanding anything to the contrary in this subsection (e), the Company shall have the right to discontinue any registration under this subsection (e) at any time prior to the effective date of such registration if the registration of the other securities giving rise to such registration under this subsection (e) is discontinued (and notice of such discontinuance will be promptly given to each participating Holder); but no such discontinuation shall preclude an immediate or subsequent request for registration pursuant to subsections (a), (b) or (c) of this Section 2.

(f) LIMITATIONS ON DEMAND. The Company shall not be obligated to file a registration statement, or file any amendment or supplement thereto, and may suspend the sellers' rights to make sales pursuant to an effective registration statement, at any time when the Company, in the good faith judgment of its Board of Directors, reasonably believes that the filing thereof at the time requested, or the offering of securities pursuant thereto, would adversely affect a pending or proposed public offering of the Company's securities, a financing, or an acquisition, merger, recapitalization, consolidation, reorganization or similar transaction, or negotiations, discussions or pending proposals with respect thereto, or would otherwise be seriously detrimental to the Company and its stockholders. The filing of a registration, or any amendment or supplement thereto, by the Company cannot be deferred, and the sellers' rights to make sales pursuant to an effective registration statement cannot be suspended pursuant to the provisions of the preceding sentence for more than fifteen days after the abandonment or consummation of any of the foregoing proposals for transactions or, in any event, for more than 90 days after the date of the Board's determination referenced in the preceding sentence (and the Company shall not be entitled to request more than one such suspension in any nine month period). If the Company pursuant to this Section 2(f) suspends the sellers' right to make sales pursuant to an effective registration statement, the applicable registration period shall be extended by the number of days of such suspension. If the Company pursuant to this Section 2(f) delays the filing with the SEC of a registration statement or any amendment or supplement thereto or the effectiveness of such registration statement, Harvard, the Voting Trust, or Vestar, as the case may be, may, by written notice to the Company withdraw its request made pursuant to Section 2(a), 2(b), or 2(c), respectively, and thereafter shall be entitled to make one additional request pursuant to Section 2(a), 2(b), or 2(c), as the case may be, in lieu of the withdrawn request.

(g) EXPENSES. Subject to the last sentence of Section 3(e), the Company will pay all Registration Expenses in connection with the registration of Registrable Securities pursuant to this Section 2, whether or not such registration shall become effective, except that all Registration Expenses in connection with the registration of Registrable Securities pursuant to a Supplemental Demand by Harvard, Vestar and/or the Voting Trust, as the case may be, shall be paid by the Holders participating in such Supplemental Registration whether or not such registration shall become effective.

(h) EFFECTIVE REGISTRATION STATEMENT. A registration requested pursuant to this Section 2 will not be deemed to have been effected unless a registration statement with respect thereto has become effective; PROVIDED, that if, within 90 days after it has become effective, the offering of Registrable Securities pursuant to such registration is interfered with by any stop order, injunction or other order or requirement of the SEC or other governmental agency or court for any reason other than a violation of applicable law solely by the Holders and the registration has not within three business days thereafter become effective, such registration will be deemed not to have been effected, and a Holder may, by written notice to the Company, withdraw its request made pursuant to Section 2(a), 2(b), or 2(c), as the case may be, and thereafter shall be entitled to make one additional request pursuant to Section 2(a), 2(b), or 2(c), as the case may be, in lieu of the withdrawn request.

(i) SELECTION OF UNDERWRITERS. If a requested registration pursuant to this Section 2 involves an underwritten offering in which the Company is participating by including therein at least \$3 million of Common Stock for its own account, the Company shall have the right to select the lead managing underwriter of the offering, which shall be an investment banking firm of nationally recognized standing reasonably satisfactory to the Holder demanding registration pursuant to Section 2(a), 2(b), or 2(c), as the case may be, and the Holder demanding registration pursuant to Section 2(a), 2(b), or 2(c), as the case may be, shall have the right to select a co-manager, which shall be an investment banking firm of nationally recognized standing reasonably satisfactory to the Company. If a requested registration pursuant to this Section 2 involves an underwritten offering in which the Company is not participating by including therein at least \$3 million of Common Stock for its own account, the Holder demanding registration pursuant to 2(a), 2(b) or 2(c), as the case may be, shall have the right to select the lead managing underwriter of the offering, which shall be an investment banking firm of nationally recognized standing reasonably satisfactory to the Company, and the Company shall have the right to select a co-manager, which shall be an investment banking firm of nationally recognized standing reasonably satisfactory to the Holder demanding registration.

(j) PRIORITY IN REGISTRATIONS. If a registration pursuant to this Section 2 involves an underwritten offering and the lead managing underwriter advises the Company in writing that, in its opinion, the number of securities requested to be included in such registration exceeds the number which can be sold in such offering within a price range stated by the Holder requesting registration as being acceptable, the Company will include in such registration the securities the Company proposes to sell for its own account, if any, and the number of such Registrable Securities requested to be included in such registration that, in the opinion of the lead managing underwriter, can be sold, allocated pro rata among the Company and all requesting Holders on the basis of the total number of shares proposed to be registered by the Company in good faith and the number of shares of Registrable Securities then held by each such Holder (provided that any Registrable Securities thereby allocated to any such Holder that exceed such Holder's request will be reallocated among the remaining requesting Holders based on the number of shares of Registrable Securities held by each such Holder).

(k) ADDITIONAL DEMAND REGISTRATION. Notwithstanding any other provisions of this Section 2, at any time or from time to time, if, solely as a result of the operation of Section 2(j), the Company effects the registration of less than 80% of (x) the Registrable Securities requested to be registered pursuant to Section 2(a), (y) the Registrable Securities requested to be registered pursuant to Section 2(b), or (z) the Registrable Securities requested to be registered pursuant to Section 2(c) and the amount which is less than such 80% threshold has not been registered pursuant to a subsequent incidental registration pursuant to Section 2(e), the holders of not less than 50% of the remaining Registrable Securities owned or held by Harvard, the Voting Trust or Vestar and/or Vestar Capital, as the case may be, shall be entitled to request an additional registration pursuant to Section 2(a), Section 2(b), or Section 2(c), as the case may be. Any such registration shall be requested and effected in accordance with the terms of this Section 2, and the Company will pay all Registration Expenses in connection with any such registration but only to the same extent as the Company was required to pay such Registration Expenses pursuant to Section 2(g) in connection with the registration pursuant to which such Holders initially requested registration.

(l) REGISTRATION OF OTHER SECURITIES. Whenever the Company shall effect a registration pursuant to Section 2 hereof, no securities other than Registrable Securities and Common Stock being sold by the Company for its own account shall be included among the securities covered by such registration unless all requesting Holders and the Company shall have consented thereto in writing.

(m) REGISTRATION STATEMENT FORM. Registration under Section 2 hereof shall be on such appropriate registration form prescribed by the SEC under the Securities Act (i) as shall be selected by the Company and as shall be reasonably acceptable to the Holder of a majority of the Registrable Securities covered by such registration statement and (ii) as shall permit the disposition of the Registrable Securities pursuant to the intended method of disposition thereof specified in accordance with Section 2(d). The Company agrees to

include in such registration statement filed pursuant to Section 2 hereof all information which any Holder, upon advice of counsel or upon the advice of the lead managing underwriter (or upon the advice of any demanding Holder if the Company shall have selected the lead managing underwriter or if the registration statement is not being filed in connection with an underwritten offering), to facilitate the marketing of such shares, shall reasonably request. Without limiting the Company's obligations under the preceding sentence, the Company may, if permitted by law, effect any registration requested under Section 2 hereof by the filing of a registration statement on Form S-3 (or any successor or similar short form registration statement).

(n) "OTHER REGISTRATION RIGHTS". The Company shall not grant to any person registration rights which (i) are exercisable prior to the time when registration rights hereunder are first exercisable, (ii) would result in the deferral of a demand registration which could otherwise be affected hereunder, (iii) would operate to reduce the number of Registrable Securities which could be registered pursuant to a demand registration hereunder by Harvard, Vestar or the Voting Trust, (iv) except with respect to Common Stock issued by the Company in the future, would operate to reduce the number of Registrable Securities which could be registered in any other registration hereunder or (v) would have priority for inclusion in any registration hereunder over any Registrable Securities of any Holder.

3. REGISTRATION PROCEDURES. (a) If and whenever the Company is required to use its reasonable best efforts to effect the registration under the Securities Act of Registrable Securities as provided in this Agreement, the Company will, as expeditiously as possible:

(i) prepare and file with the SEC as soon as practicable a registration statement with respect to such Registrable Securities, and, subject to Section 2(f), use its reasonable best efforts to cause such registration statement to become effective;

(ii) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective until the earlier of (x) the date on which all of the Registrable Securities have been disposed of in accordance with the method of disposition set forth in such registration statement and (y) 90 days after the effective date of such registration statement and to comply with the provisions of the Securities Act applicable to the Company with respect to the disposition of all securities covered by such registration statement during such period; PROVIDED, that before filing a registration statement or prospectus, or any amendments or supplements thereto, the Company will furnish to one counsel, selected by the Holders of a majority of the Registrable Securities covered by such registration statement to represent all Holders of Registrable Securities covered by such registration statement, at least five business days prior to the filing of such registration statement and the prospectus contained therein and at least one business day prior to the filing of any amendment or supplements thereto, copies of all documents proposed to be filed, which documents will be subject to the review of such counsel and no such registration statement or prospectus, or any amendment or supplement thereto, shall be filed to which such counsel shall have reasonably objected on the grounds that such registration statement or prospectus, or amendment or supplement (with respect to disclosures or omissions in the case of a registration under Section 2 relating to the Holders of Registrable Securities), does not comply in all material respects with the requirements of the Securities Act or the rules or regulations thereunder and shall have specified the basis for such objection in reasonable detail;

(iii) furnish to each seller of Registrable Securities covered by such registration statement such number of copies of such final conformed versions of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits and any documents incorporated by reference), such number of copies of such registration statement (including each preliminary prospectus and any summary prospectus) and any other prospectus filed under Rule 424 under the Securities Act, in conformity with the requirements of the Securities Act, and such other final

documents, as such seller may reasonably request in writing in order to facilitate the disposition of the Registrable Securities;

(iv) use its reasonable best efforts to register or qualify the Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as each seller shall reasonably request, and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the Registrable Securities owned by such seller, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction, subject itself to taxation in any jurisdiction (other than taxes related to the issuance of the Registrable Securities) or consent to general service of process in any jurisdiction where, but for the requirements of this clause (iv), it would not be obligated to be so qualified, subject to taxation or subject to general service of process;

(v) use its reasonable best efforts to cause such Registrable Securities covered by such registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof to consummate the disposition of such Registrable Securities.

(vi) promptly notify each seller of any such Registrable Securities covered by such registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act within the appropriate period mentioned in clause (ii) of this Section 3, of the Company's becoming aware that the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and at the request of any such seller, prepare and furnish to such seller a reasonable number of copies of an amended or supplemental prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(vii) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable (but not more than eighteen months) after the effective date of the registration statement, an earnings statement which shall satisfy the provisions of Section 11(a) of the Securities Act and the rules and regulations promulgated thereunder;

(viii) use its best efforts to list, subject to official notice of issuance, such Registrable Securities on any securities exchange on which the Common Stock is then listed, if such Registrable Securities are not already so listed and if such listing is then permitted under the rules of such exchange;

(ix) enter into such customary agreements (including an underwriting agreement in customary form) and take such other actions as sellers of a majority of such Registrable Securities covered by such registration statement or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Securities;

(x) obtain a "cold comfort" letter or letters from the Company's independent public accountants, addressed to such seller (and the underwriters, if any), in customary form and covering matters of the type customarily covered by "cold comfort" letters dated the effective date of such registration statement (and, if such registration includes an underwritten offering, dated the date of the closing under the underwriting agreement), reasonably satisfactory in form and substance to such seller; and

(xi) use its reasonable best efforts to furnish to each seller of Registrable Securities a signed counterpart, addressed to such seller (and the underwriters, if any), of a customary opinion of counsel for the Company dated the effective date of such registration statement (and, if such registration includes an underwritten offering, dated the date of the closing under the underwriting agreement), reasonably satisfactory in form and substance to such seller;

(xii) subject to Section 7, make available for reasonable inspection by, or give reasonable access to, any seller of such Registrable Securities covered by such registration statement, by any underwriter participating in any disposition to be effected pursuant to such registration statement and by any attorney, accountant or other agent retained by any such seller or any such underwriter, all pertinent financial and other records, pertinent corporate documents and properties of the Company, and cause all of the Company's officers, directors and employees to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement.

(b) In connection with any registration requested pursuant to this Agreement, management of the Company shall participate in customary road show meetings reasonably requested upon reasonable prior notice by the lead managing underwriter of such offering.

(c) The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish the Company with such information regarding such seller and the distribution of such securities as required to be included in the related registration statement as the Company may from time to time reasonably request in writing.

(d) Each Holder of Registrable Securities being sold pursuant to a registration effected pursuant hereto agrees that as of the date that a final prospectus is made available to it for distribution to prospective purchasers of such Registrable Securities it shall cease to distribute copies of any preliminary prospectus prepared in connection with the offer and sale of such Registrable Securities.

(e) Each Holder of Registrable Securities further agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in clause (vi) of Section 3(a), such Holder will forthwith discontinue disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such Holder's receipt of the copies of the supplemented or amended prospectus contemplated by clause (vi) of Section 3(a), and, if so directed by the Company, such Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice. Notwithstanding the foregoing, the Holder shall not be responsible for any continued disposition of Registrable Securities by any underwriter. In the event the Company shall give any such notice, the period mentioned in clause (ii) of Section 3(a) shall be extended by the number of days during the period from, and including the date of the giving of, such notice pursuant to clause (vi) of Section 3(a) and including the date when each seller of Registrable Securities covered by such registration statement shall have received the copies of the supplemented or amended prospectus contemplated by clause (vi) of Section 3(a). If any event of the kind described in clause (vi) of Section 3(a) occurs and such event is the fault solely of one or more Holders, such Holder or Holders shall pay all Registration Expenses attributable to the preparation, filing and delivery of any supplemented or amended prospectus contemplated by clause (vi) of Section 3(a).

(f) Each Holder of Registrable Securities agrees that it will pay all underwriting discounts and commissions applicable to its sale of Registrable Securities in any underwritten public offering effected pursuant to this Agreement, all transfer taxes applicable to its sale of Registrable Securities and, subject to the provisions set forth in clause (vi) of the definition of Registration Expenses, the fees and disbursements of its counsel. Except as otherwise provided in clause (vi) of the definition of Registration Expenses, if two or more

Holders jointly retain counsel, the fees and expenses of such counsel shall be borne by such Holders on such basis as such Holders shall mutually agree in writing.

4. INDEMNIFICATION.

(a) INDEMNIFICATION BY THE COMPANY. In connection with any registration statement filed by the Company under the Securities Act pursuant to Section 2, the Company will, and it hereby agrees to, indemnify and hold harmless, to the extent permitted by law, the seller of any Registrable Securities covered by such registration statement, each other Person, if any, who participates as an underwriter in the offering or sale of such securities and each other Person, if any, who controls such Holder or seller or any such underwriter, and their respective directors, officers, employees, stockholders, partners, agents and representatives, and their respective Affiliates, against any and all losses, claims, damages, expenses or liabilities, joint or several, to which such indemnified party may become subject under the Securities Act, common law or otherwise, insofar as such losses, claims, damages, expenses or liabilities (or actions or proceedings in respect thereof, whether or not such indemnified party is a party thereto) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered under the Securities Act, any preliminary, final or summary prospectus contained therein, or any amendment or supplement thereto, or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and the Company will reimburse such indemnified party for any legal or any other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, liability, action or proceeding; PROVIDED, that as to any preliminary prospectus, the Company shall not be liable to any indemnified party if such party failed to send or give a copy of the final prospectus to any person within the time required by the Securities Act and such untrue statement or alleged untrue statement of material fact or omission or alleged omission to state a material fact in such preliminary prospectus was corrected in such final prospectus; and PROVIDED, FURTHER, that the Company shall not be liable to any indemnified party in any such case to the extent that any such loss, claim, damage, expense, liability (or action or proceeding in respect thereof), arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement or amendment or supplement thereto or in any such preliminary, final or summary prospectus in reliance upon and in conformity with written information with respect to such seller furnished to the Company by or on behalf of such seller for use in the preparation thereof; and PROVIDED, FURTHER, that the Company shall not be liable for any amounts paid in connection with any settlement if such settlement is effected without the written consent of the Company (which shall not be unreasonably withheld); and PROVIDED, FURTHER, that the Company will not be liable to any Person who participates as an underwriter in the offering or sale of Registrable Securities or any other Person, if any, who controls such underwriter within the meaning of the Securities Act, under the indemnity agreement in this Section 4(a) with respect to any preliminary prospectus or the final prospectus or the final prospectus as amended or supplemented, as the case may be, to the extent that any such loss, claim, damage or liability of such underwriter or controlling Person results from the fact that such underwriter sold Registrable Securities to a person to whom there was not sent or given, at or prior to the written confirmation of such sale, a copy of the final prospectus (including any documents incorporated by reference therein) or of the final prospectus as then amended or supplemented (including any documents incorporated by reference therein), whichever is most recent, if the Company has previously furnished copies thereof to such underwriter. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such seller or any indemnified party and shall survive the transfer of such securities by such seller.

(b) INDEMNIFICATION BY THE SELLER. In connection with any registration statement filed by the Company under the Securities Act pursuant to Section 2, each Holder of Registrable Securities covered by such registration statement shall, and hereby agrees to, indemnify and hold harmless (in the same manner and to the same extent and subject to the same provision as set forth in Section 4(a)) the Company, each other Holder of Registrable Securities, any underwriter and each other Person, if any, who controls the Company or such Holder

or any such underwriter, and their respective directors, officers, employees, partners, stockholders, agents and representatives, and their respective Affiliates, with respect to any statement or alleged statement in or omission or alleged omission from such registration statement, any preliminary, final or summary prospectus contained therein, or any amendment or supplement, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information with respect to such Holder furnished to the Company by such Holder for use in preparation of such registration statement, preliminary, final or summary prospectus or amendment or supplement, or a document incorporated by reference into any of the foregoing. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any of the Holders, or any of their respective controlling Persons, directors, officers, employees, stockholders, partners, agents and representatives, or any of their respective Affiliates, and shall survive the transfer of such securities by such Holder. Notwithstanding the foregoing, the liability of any Holder under this Section 4(b) shall be limited to an amount equal to the amount by which the total price at which the Registrable Securities were sold by such Holder and distributed to the public in the offering which gave rise to the liability exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such offering. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees and expenses reasonably incurred by such party in connection with any investigation or proceeding.

(c) NOTICES OF CLAIMS, ETC. Promptly after receipt by an indemnified party hereunder of written notice of the commencement of any action or proceeding with respect to which a claim for indemnification or contribution may be made pursuant to this Section 4, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action or proceeding; provided, that the failure of the indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding subdivisions of this Section 4, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action or proceeding is brought against an indemnified party, the indemnifying party shall assume the defense thereof with counsel reasonably satisfactory to the indemnified party. The indemnified party shall have the right to employ separate counsel in any such action or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party has agreed to pay such fees and expenses or (ii) the indemnifying party shall have failed to assume the defense of such action or proceeding or to employ counsel reasonably satisfactory to the indemnified party therein or (iii) the named parties to any such action or proceeding (including any impleaded party) include both the indemnifying party and the indemnified party and (x) there are one or more legal defenses available to the indemnified party which are different from or additional to those available to the indemnifying party and which result in a conflict between the indemnifying party and such indemnified party or (y) the representation of both parties by the same counsel would be inappropriate due to differing interests between them, in either which case under the preceding clause (iii), if the indemnified party notifies the indemnifying party in writing that the indemnified party elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action or proceeding on behalf of the indemnified party. No indemnifying party will consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation. The indemnifying party shall not, in connection with any one such action or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys at any time for all indemnified parties, which firm shall be designated in writing by the indemnified parties.

(d) CONTRIBUTION. If the indemnification provided for in this Section 4 from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party in lieu of indemnifying such indemnified party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages,

liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the actions that results in such losses, claims, damages, liabilities and expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and the indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. Notwithstanding the foregoing, no Holder shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities were sold by such Holder and distributed to the public in the offering that resulted in such losses, claims, damages, liabilities and expenses exceed the amount of any damages that such Holder has otherwise been required to pay by reason of any such actions. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees and expenses reasonably incurred by such party in connection with any investigation or proceeding.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 4(d) were determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in the immediately preceding paragraph. The obligation of each Holder to contribute in respect of any offering of Registrable Securities is several in the same proportion that the proceeds of such offering received by such Holder bears to the total proceeds of such offering and not joint. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

If indemnification is available under this Section 4, the indemnifying parties shall indemnify each indemnified party to the full extent provided in Section 4(a) or (b), as the case may be, without regard to the relative fault of said indemnifying parties or indemnified party or any other equitable consideration provided for in this Section 4(d).

(e) NON-EXCLUSIVITY. The obligations of the parties under this Section 4 shall be in addition to any liability which any party may otherwise have to any other party.

5. HOLDBACK AGREEMENT.

(a) RESTRICTIONS ON PUBLIC SALE BY HOLDERS. Each Holder agrees not to effect any public sale or distribution of Registrable Securities or any similar security of the Company, or any securities convertible into or exchangeable or exercisable for such securities, or any securities into which such securities are convertible or for which such securities are exchangeable or exercisable, during the 10 days prior to, and during the 90 day period beginning on, the effective date of any registration statement in which Holders are participating in connection with an underwritten public offering of the Registrable Securities (except as part of such registration), if and to the extent reasonably requested in writing (with reasonable prior notice) by the lead managing underwriter of the underwritten public offering.

(b) RESTRICTIONS ON PUBLIC SALE BY THE COMPANY. The Company agrees not to effect any primary public sale or distribution of any securities similar to those being registered, or any securities convertible into or exchangeable or exercisable for such securities, or any securities into which such securities are convertible or for which such securities are exchangeable or exercisable, during the 10 days prior to, and the 90 day period beginning on, the effective date of any registration statement in which Holders are participating in connection with an underwritten public offering if an to the extent reasonably requested in writing (with reasonable prior notice) by the lead managing underwriter of the underwritten public offering.

6. PARTICIPATION IN UNDERWRITTEN REGISTRATIONS. No Holder of Registrable securities may participate in any underwritten registration hereunder unless such Holder (a) agrees to sell such Holder's securities on the basis provided in and in compliance with any underwriting arrangements and (b) complete and executes all questionnaires, appropriate and limited powers of attorney, escrow agreements, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

7. MISCELLANEOUS.

(a) AMENDMENTS AND WAIVERS. This Agreement may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company shall have obtained the written consent to such amendment, action or omission to act, of the Holders of a majority of the Registrable Securities then outstanding; provided, however, that no such amendment which would have an adverse effect on any Holder shall be effective as to such Holder without the written consent of such Holder (or if such Holder is not an original Holder hereunder, without the written consent of at least a majority of the Registrable Securities held by the original Holder who directly or indirectly transferred shares to such Holder, together with all other direct or indirect transferees of such original Holder). Each Holder of Registrable Securities at the time or thereafter outstanding shall be bound by any consent authorized by this Section 7(a), whether or not such Registrable Securities shall have been marked to indicate such consent.

(b) SUCCESSORS, ASSIGNS AND TRANSFEREES. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors, assigns and transferees.

(c) NOTICES. Any notice, request, demand, waiver or other communication required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given (i) when delivered by hand, (ii) five business days after it is mailed certified or registered mail, return receipt requested with postage prepaid, (iii) when answered back if sent by telecopy (with respect confirmed) or (iv) three business days after it is sent by express delivery service, as follows:

(i) if to the Company, to:

Westinghouse Air Brake Company
1001 Air Brake Avenue
Wilmerding, Pennsylvania 15148

With a copy to:

Reed Smith Shaw & McClay
435 Sixth Avenue
Pittsburgh, Pennsylvania 15219
Attention: David L. DeNinno
Telecopier: 412-288-3063

(ii) if to Harvard, to:

c/o Harvard Private Capital Group, Inc.
600 Atlantic Avenue, 26th Floor
Boston, Massachusetts 02100
Attention: John Sallay
Telecopier: 617-523-1063

With a copy to:

Ropes & Gray
One International Place
Boston, Massachusetts 02110-26242
Attention: Larry J. Rowe
Telecopier: 617-951-7050

(iii) if to AIP:

American Industrial Partners
551 Fifth Avenue, Suite 3800
New York, New York 10176
Attention: Robert J. Klein
Telecopier: 212-986-5099

With a copy to:

American Industrial Partners
One Maritime Plaza, Suite 2525
San Francisco, California 94111
Attention: Ken Pereira
Telecopier: 415-788-5302

and

Latham & Watkins
5800 Sears Tower
Chicago, IL 60606
Attention: Mark Stegemoeller, Esq.
Telecopier: 312-993-9767

(iv) if to the Voting Trust, to:

c/o Westinghouse Air Brake Company
1001 Air Brake Avenue
Wilmerding, Pennsylvania 15148
Attention: Robert J. Brooks
Telecopier: (412) 825-1156

With a copy to:

Reed Smith Shaw & McClay
435 Sixth Avenue
Pittsburgh, Pennsylvania 15219
Attention: David L. DeNinno
Telecopier: (412) 288-3063

(v) if to Vestar or Vestar Capital, to:

Vestar Capital Partners, Inc.
 Seventeenth Street Plaza
 1225 17th Street, Suite 1600
 Denver, Colorado 80202
 Attention: James P. Kelley
 Telecopier: (303) 292-6639

With a copy to:

Simpson Thacher & Bartlett
 425 Lexington Avenue
 New York, New York 10017
 Attention: Peter J. Gordon, Esq.
 Telephone No.: (212) 455-2605
 Telecopier No.: (212) 455-2502

(vi) if to any Pulse Shareholder, to such Holder at such Holder's address, telephone number of telecopier number set forth in the Company's records.

All such notices and communications shall be deemed to have been given or made (1) when delivered by hand, (2) five business days after it is mailed, certified or registered mail, return receipt requested with postage prepaid, (3) when answered by if sent by telex, telegram or telecopy (with receipt confirmed) or (4) three business days after it is sent by express delivery service.

(d) DESCRIPTIVE HEADINGS. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning of terms contained herein.

(e) SEVERABILITY. In the event that any one or more of the provisions, paragraphs, words, clauses, phrases or sentences contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision, paragraph, word, clause, phrase or sentence in every other respect and of the remaining provisions, paragraphs, words, clauses, phrases or sentences hereof shall not be in any way impaired, it being intended that all rights, powers and privileges of the parties hereto shall be enforceable to the fullest extent permitted by law.

(f) COUNTERPARTS. This Agreement may be executed in two or more counterparts, and by different parties on separate counterparts, each of which shall be deemed an original, but all such counterparts shall together constitute one and the same instrument.

(g) GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York applicable to contracts made and to be performed therein. The parties to this Agreement hereby agree to submit to the jurisdiction of the courts of the State of New York in any action or proceeding arising out of or relating to this Agreement.

(h) SPECIFIC PERFORMANCE. The parties hereto acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, it is agreed that they shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction in the United States or any state thereof, in addition to any other remedy to which they may be entitled at law or equity.

(i) ENTIRE AGREEMENT. This Agreement is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings other than those set forth or referred to herein. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter. Vestar and the Voting Trust hereby agree that all rights of either of them under the Existing Registration Rights Agreement are hereby terminated.

(j) EFFECTIVENESS. This Agreement shall become effective upon the consummation of the SIH Repurchase.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

WESTINGHOUSE AIR BRAKE COMPANY

By: /s/ ROBERT J. BROOKS

Name: Robert J. Brooks
Title: Vice President and Secretary

HARVARD PRIVATE CAPITAL HOLDINGS, INC.

By: /s/ MARK A. ROSEN

Name: Mark A. Rosen
Title: Authorized Signatory

By: /s/ MICHAEL B. EISENSEN

Name: Michael B. Eisenenson
Title: Authorized Signatory

VOTING TRUST

By: /s/ ROBERT J. BROOKS

Name: Robert J. Brooks
Title: Trustee

VESTAR EQUITY PARTNERS, L.P.

By: VESTAR ASSOCIATES, L.P., its General Partner

By: VESTAR ASSOCIATES CORPORATION,
its General Partner

By: /s/ JAMES P. KELLEY

Name: James P. Kelley
Title: Managing Director

VESTAR CAPITAL PARTNERS, INC.

By: /s/ JAMES P. KELLEY

Name: James P. Kelley
Title: Managing Director

AMERICAN INDUSTRIAL PARTNERS
FUND II, L.P.

By: AMERICAN INDUSTRIAL PARTNERS, II, L.P.,
its General Partner

By: AMERICAN INDUSTRIAL PARTNERS
CORPORATION, its General Partner

By: /s/ THEODORE C. ROGERS

Name: Theodore C. Rogers
Title: Chairman

/s/ EMILIO A. FERNANDEZ, JR.

Emilio A. Fernandez, Jr.

/s/ EMILIO A. FERNANDEZ, JR.

Emilio A. Fernandez, Jr.,
as custodian for Eric A. Fernandez

/s/ OFELIA B. FERNANDEZ

Ofelia B. Fernandez

SUBSIDIARIES OF
WESTINGHOUSE AIR BRAKE COMPANY

COMPANY	JURISDICTION OF INCORPORATION	WABCO'S OWNERSHIP INTEREST
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Allied Friction Products Australia Pty Ltd.	Australia	100%
Benn Iron Foundry Ltd.	Canada	100%
Cobra Europe S.A.	France	100%
Evand Pty Ltd.	Australia	100%
F.I.P. Pty Ltd.	Australia	100%
Greysam Railway Friction Products	India	65%
H.P. s.r.l.	Italy	100%
Pioneer Friction	India	51%
Railroad Friction Products Corporation	Delaware	100%
RFPC Holding Corporation	Delaware	100%
Stone Safety Service Corp	New Jersey	100%
Stone U.K.	United Kingdom	100%
TFL, Inc.	Delaware	100%
ThermoSealed Castings Ltd.	Canada	100%
Vapor Canada Inc.	Canada	100%
Vapor Corporation	Delaware	100%
Vapor UK Limited	United Kingdom	100%
Westinghouse Railway (Canada), Ltd.	Canada	100%
Westinghouse Railway Holdings (Canada) Inc.	Canada	100%

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports, included in this Form 10-K, into the Company's previously filed Registration Statement File No. 33-80417.

ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania
March 18, 1998

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

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		2,045
		69,297
	180,499	186,534
		78,167
		410,879
131,780		332,334
	0	0
		474
410,879		(79,263)
		564,441
	564,441	378,323
		378,323
		96,143
		0
	29,729	
		60,590
		23,327
37,263		
	0	
	0	0
		37,263
		1.45
		1.42

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT

PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One):

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED].

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-13782

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Westinghouse Air Brake Company
Employees Stock Ownership Plan and Trust

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Westinghouse Air Brake Company, 1001 Air Brake Avenue,
Wilmerding, Pennsylvania 15148

The Westinghouse Air Brake Company Employee Stock Ownership Plan and Trust is subject to the Employee Retirement Income Security Act of 1974. The required financial statements will be filed by amendment within the time prescribed by the rules of Form 11-K.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the ESOP Committee of Westinghouse Air Brake Company has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Westinghouse Air Brake Company
Employee Stock Ownership Plan
and Trust

By /s/ KEVIN P. CONNER

Kevin P. Conner
Member of the ESOP Committee

February 26, 1998