

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP

Form 10-Q

November 02, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-13782

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)
1001 Air Brake Avenue
Wilmerding, PA
(Address of principal executive offices)

25-1615902
(I.R.S. Employer
Identification No.)
15148
(Zip Code)

412-825-1000

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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

| Class | Outstanding at October 26, 2012 |
|---|---------------------------------|
| Common Stock, \$.01 par value per share | 47,887,404 shares |

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**WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION**

September 30, 2012

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

| <i>In thousands, except shares and par value</i> | Unaudited September 30, 2012 | December 31, 2011 |
|--|---|------------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 282,055 | \$ 285,615 |
| Accounts receivable | 430,230 | 346,281 |
| Inventories | 391,592 | 348,174 |
| Deferred income taxes | 58,592 | 57,339 |
| Other | 21,580 | 18,373 |
| Total current assets | 1,184,049 | 1,055,782 |
| Property, plant and equipment | 534,687 | 513,113 |
| Accumulated depreciation | (305,540) | (291,091) |
| Property, plant and equipment, net | 229,147 | 222,022 |
| Other Assets | | |
| Goodwill | 656,933 | 587,531 |
| Other intangibles, net | 284,889 | 257,355 |
| Other noncurrent assets | 41,024 | 36,263 |
| Total other assets | 982,846 | 881,149 |
| Total Assets | \$ 2,396,042 | \$ 2,158,953 |
| Liabilities and Shareholders Equity | | |
| Current Liabilities | | |
| Accounts payable | \$ 235,568 | \$ 244,649 |
| Customer deposits | 104,404 | 72,811 |
| Accrued compensation | 49,443 | 48,564 |
| Accrued warranty | 38,555 | 29,416 |
| Current portion of long-term debt | 43 | 68 |
| Other accrued liabilities | 112,679 | 145,877 |
| Total current liabilities | 540,692 | 541,385 |
| Long-term debt | 432,854 | 395,805 |
| Accrued postretirement and pension benefits | 59,855 | 63,837 |
| Deferred income taxes | 91,281 | 74,217 |
| Accrued warranty | 18,942 | 21,224 |
| Other long-term liabilities | 21,401 | 14,841 |
| Total liabilities | 1,165,025 | 1,111,309 |
| Shareholders Equity | | |
| Preferred stock, 1,000,000 shares authorized, no shares issued | | |

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| | | |
|--|--------------|--------------|
| Common stock, \$.01 par value; 100,000,000 shares authorized: 66,174,767 shares issued and 47,887,204 and 47,946,360 outstanding at September 30, 2012 and December 31, 2011, respectively | 662 | 662 |
| Additional paid-in capital | 375,975 | 360,914 |
| Treasury stock, at cost, 18,287,563 and 18,228,407 shares, at September 30, 2012 and December 31, 2011, respectively | (331,708) | (309,196) |
| Retained earnings | 1,235,417 | 1,053,706 |
| Accumulated other comprehensive loss | (55,080) | (60,897) |
| | | |
| Total Westinghouse Air Brake Technologies Corporation shareholders' equity | 1,225,266 | 1,045,189 |
| Non-controlling interest | 5,751 | 2,455 |
| | | |
| Total shareholders' equity | 1,231,017 | 1,047,644 |
| | | |
| Total Liabilities and Shareholders' Equity | \$ 2,396,042 | \$ 2,158,953 |

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| <i>In thousands, except per share data</i> | Unaudited Three Months Ended September 30, | | Unaudited Nine Months Ended September 30, | |
|--|--|------------|---|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 587,593 | \$ 498,840 | \$ 1,780,722 | \$ 1,432,998 |
| Cost of sales | (416,314) | (351,689) | (1,266,635) | (1,009,908) |
| Gross profit | 171,279 | 147,151 | 514,087 | 423,090 |
| Selling, general and administrative expense | (59,743) | (57,676) | (180,935) | (186,435) |
| Engineering expense | (10,753) | (9,894) | (31,047) | (27,914) |
| Amortization expense | (3,941) | (4,128) | (10,288) | (10,549) |
| Total operating expenses | (74,437) | (71,698) | (222,270) | (224,898) |
| Income from operations | 96,842 | 75,453 | 291,817 | 198,192 |
| Other income and expenses | | | | |
| Interest expense, net | (3,070) | (3,764) | (10,303) | (11,241) |
| Other (expense) income, net | (1,393) | (1,529) | (1,284) | (1,479) |
| Income from operations before income taxes | 92,379 | 70,160 | 280,230 | 185,472 |
| Income tax expense | (29,385) | (23,560) | (93,263) | (61,586) |
| Net income attributable to Wabtec shareholders | \$ 62,994 | \$ 46,600 | \$ 186,967 | \$ 123,886 |
| Earnings Per Common Share | | | | |
| Basic | | | | |
| Net income attributable to Wabtec shareholders | \$ 1.32 | \$ 0.97 | \$ 3.90 | \$ 2.58 |
| Diluted | | | | |
| Net income attributable to Wabtec shareholders | \$ 1.30 | \$ 0.96 | \$ 3.85 | \$ 2.56 |
| Weighted average shares outstanding | | | | |
| Basic | 47,643 | 47,874 | 47,732 | 47,827 |
| Diluted | 48,271 | 48,366 | 48,360 | 48,327 |

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| <i>In thousands</i> | Unaudited Three Months Ended September 30, | | Unaudited Nine Months Ended September 30, | |
|--|--|-----------|---|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income attributable to Wabtec shareholders | \$ 62,994 | \$ 46,600 | \$ 186,967 | \$ 123,886 |
| Foreign currency translation gain (loss) | 11,916 | (37,792) | 6,298 | (10,696) |
| Unrealized gain on foreign exchange contracts | | 200 | | 251 |
| Unrealized (loss) gain on interest rate swap contracts | (903) | 376 | (3,064) | 604 |
| Pension benefit plans and post-retirement benefit plans | (128) | 2,571 | 2,158 | 3,273 |
| Comprehensive income before income taxes | 73,879 | 11,955 | 192,359 | 117,318 |
| Income tax benefit (expense) related to components of other comprehensive income | 333 | (959) | 425 | (1,351) |
| Comprehensive income attributable to Wabtec shareholders | \$ 74,212 | \$ 10,996 | \$ 192,784 | \$ 115,967 |

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>In thousands</i> | Unaudited Nine Months Ended September 30, | |
|--|--|-------------|
| | 2012 | 2011 |
| Operating Activities | | |
| Net income attributable to Wabtec shareholders | \$ 186,967 | \$ 123,886 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | 31,488 | 33,678 |
| Stock-based compensation expense | 15,007 | 13,222 |
| Loss on disposal of property, plant and equipment | 674 | 689 |
| Excess income tax benefits from exercise of stock options | (2,518) | (3,689) |
| Changes in operating assets and liabilities, net of acquisitions | | |
| Accounts receivable | (71,430) | (80,285) |
| Inventories | (26,599) | (63,389) |
| Accounts payable | (18,569) | 3,696 |
| Accrued income taxes | (17,378) | 4,257 |
| Accrued liabilities and customer deposits | 37,700 | 80,848 |
| Other assets and liabilities | (21,817) | (12,893) |
| Net cash provided by operating activities | 113,525 | 100,020 |
| Investing Activities | | |
| Purchase of property, plant and equipment | (24,694) | (22,226) |
| Proceeds from disposal of property, plant and equipment | 931 | 300 |
| Acquisitions of business, net of cash acquired | (102,144) | (51,777) |
| Acquisition purchase price adjustment | (160) | 40 |
| Net cash used for investing activities | (126,067) | (73,663) |
| Financing Activities | | |
| Proceeds from debt | 211,000 | 124,000 |
| Payments of debt | (173,992) | (139,920) |
| Proceeds from exercise of stock options and other benefit plans | 3,021 | 4,577 |
| Stock repurchase | (27,997) | (23,803) |
| Excess income tax benefits from exercise of stock options | 2,518 | 3,689 |
| Cash dividends (\$0.11 and \$0.05 per share for the nine months ended September 30, 2012 and 2011, respectively) | (5,256) | (2,407) |
| Net cash provided by (used for) financing activities | 9,294 | (33,864) |
| Effect of changes in currency exchange rates | (312) | (8,298) |
| Decrease in cash | (3,560) | (15,805) |
| Cash, beginning of year | 285,615 | 236,941 |
| Cash, end of period | \$ 282,055 | \$ 221,136 |

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012 (UNAUDITED)

1. BUSINESS

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 20 countries. In the first nine months of 2012, about 50% of the Company's revenues came from customers outside the U.S.

2. ACCOUNTING POLICIES

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

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

The notes included herein should be read in conjunction with the audited consolidated financial statements included in Wabtec's Annual Report on Form 10-K for the year ended December 31, 2011. The December 31, 2011 information has been derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

Revenue Recognition Revenue is recognized in accordance with Accounting Standards Codification (ASC) 605 Revenue Recognition. Revenue is recognized when products have been shipped to the respective customers, title has passed and the price for the product has been determined.

In general, the Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts. Unbilled accounts receivables were \$92.5 million and \$58.9, customer deposits were \$104.4 million and \$72.8, and provisions for loss contracts were \$9.9 million and \$9.3 million at September 30, 2012 and December 31, 2011, respectively.

Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were \$16.4 million and \$15.4 million at September 30, 2012 and December 31, 2011, respectively.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the Company to make estimates and assumptions that affect the reported

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amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from the estimates. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Stock-Based Compensation The Company recognizes compensation expense for stock-based compensation based on the grant date fair value amortized ratably over the requisite service period following the date of grant.

Financial Derivatives and Hedging Activities The Company has periodically entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with a counter-party to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date the Company can either take delivery of the currency or settle on a net basis. At September 30, 2012, the Company had no forward contracts.

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company entered into interest rate swaps which effectively converted a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. 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 with excellent credit ratings and history of performance. The Company currently believes the risk of nonperformance is negligible. The Company concluded that these interest rate swap agreements qualify for cash flow hedge accounting which permits the recording of the fair value of the interest rate swap agreements and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet.

Effective September 30, 2012, the Company had interest rate swap agreements with a notional amount of \$107.0 million and which effectively changed the Company's interest rate on bank debt at September 30, 2012 from a variable rate to a fixed rate of 1.82%. The interest rate swap agreements mature on December 31, 2012. As of September 30, 2012, the Company has recorded a current liability of \$0.4 million and a corresponding offset in accumulated other comprehensive loss of \$0.3 million, net of tax, related to these agreements. Also, the Company entered into a forward starting interest rate swap agreement with a notional value of \$150.0 million. Effective July 31, 2013, with a termination date of November 7, 2016, this interest rate swap agreement will convert a portion of the Company's then outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 1.415% plus the Alternate Rate margin. As of September 30, 2012, the Company has recorded a current liability of \$4.1 million and a corresponding offset in accumulated other comprehensive loss of \$2.5 million, net of tax, related to this agreement.

Foreign Currency Translation Assets and liabilities of foreign subsidiaries, except for the Company's Mexican operations whose functional currency is the U.S. Dollar, are translated at the rate of exchange in effect on the balance sheet date while income and expenses are translated at the average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from transactions, and the translation of financial statements are recorded in the Company's consolidated financial statements based upon the provisions of ASC 830 Foreign Currency Matters. The effects of currency exchange rate changes on intercompany transactions and balances of a long-term investment nature are accumulated and carried as a component of accumulated other comprehensive loss. The effects of currency exchange rate changes on intercompany transactions that are denominated in a currency other than an entity's functional currency are charged or credited to earnings. Foreign exchange transaction losses recognized in other income (expense), net were \$1.4 million and \$1.8 million for the three months ended September 30, 2012 and 2011, respectively. Foreign exchange transaction losses recognized in other income (expense), net were \$0.4 million and \$2.1 million for the nine months ended September 30, 2012 and 2011, respectively.

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Non-controlling Interests In accordance with ASC 810, the Company has classified non-controlling interests as equity on our condensed consolidated balance sheets as of September 30, 2012 and December 31, 2011. Net income attributable to non-controlling interests for the three and nine months ended September 30, 2012 and 2011 was not material.

Other Comprehensive Income Comprehensive income is defined as net income and all other non-owner changes in shareholders' equity.

The components of accumulated other comprehensive loss were:

| <i>In thousands</i> | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| Foreign currency translation gain (loss) | \$ 3,851 | \$ (2,447) |
| Unrealized loss on interest rate swap contracts, net of tax | (2,722) | (871) |
| Pension benefit plans and post retirement benefit plans, net of tax | (56,209) | (57,579) |
| Total accumulated comprehensive loss | \$ (55,080) | \$ (60,897) |

3. ACQUISITIONS

The Company made the following acquisitions within the Transit Segment:

On October 1, 2012, subsequent to the close of our accounting quarter, the Company acquired LH Group (LH), a UK-based provider of maintenance and overhaul services for the passenger transit market, for a net purchase price of approximately \$47.8 million, net of cash.

On July 13, 2012, the Company acquired Tec Tran Corp. and its affiliates (Tec Tran), the only U.S.-owned manufacturer of hydraulic braking systems for transit cars, based in North Carolina, for a net purchase price of approximately \$8.5 million, net of cash, resulting in preliminary additional goodwill of \$6.8 million, which will be deductible for tax purposes.

On June 14, 2012, the Company acquired Mors Smitt Holding (Mors Smitt), a leading manufacturer of electronic components for rail and industrial markets with operations in the Netherlands, the United Kingdom, the U.S., France, China and Hong-Kong, for a net purchase price of approximately \$90.0 million, net of cash, resulting in preliminary additional goodwill of \$50.0 million, none of which will be deductible for tax purposes.

On November 18, 2011, the Company acquired Fulmer Company (Fulmer), a leading manufacturer of motor components for rail, power generation and other industrial markets, for a net purchase price of \$13.6 million, resulting in preliminary additional goodwill of \$2.0 million, which will be deductible for tax purposes.

On June 29, 2011, the Company acquired an aftermarket transit parts business (ATP) from GE Transportation, a parts supply business for propulsion and control systems for the passenger transit car aftermarket in North America for a net purchase price of \$21.1 million, resulting in no additional goodwill.

On February 25, 2011, the Company acquired Brush Traction Group (Brush Traction), a UK-based provider of locomotive overhauls, services and aftermarket components for a net purchase price of approximately \$30.7 million, resulting in additional goodwill of \$20.5 million, which will be deductible for tax purposes.

The Company made the following acquisitions within the Freight Segment:

On July 31, 2012, the Company acquired Winco Equipamentos Ferroviarios Ltda. (Winco), an established marketing and sales company with capabilities including value-added engineering and

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assembly, service, technical support and logistics, based in Brazil, for an initial net payment of approximately \$3.7 million, net of cash, resulting in preliminary additional goodwill of \$4.8 million, none of which will be deductible for tax purposes. In addition to the \$3.7 million, the purchase agreement includes contingent consideration to be paid in future periods based on the achievement of certain financial results.

On November 3, 2011, the Company acquired Bearward Engineering (Bearward), a UK-based manufacturer of cooling systems and related equipment for power generation and other industrial markets, for a net purchase price of approximately \$43.8 million, net of cash, resulting in preliminary additional goodwill of \$24.2 million, none of which will be deductible for tax purposes.

The acquisitions listed above, excluding LH, include escrow deposits of \$15.3 million, which act as security for indemnity and other claims in accordance with the purchase and related escrow agreements.

For the Bearward, Fulmer, Mors Smitt, Tec Tran and Winco acquisitions, the following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. For the Brush Traction and ATP acquisitions, the following table summarizes the final fair value of the assets acquired and liabilities assumed at the date of acquisition.

| <i>In thousands</i> | Brush Traction February 25, 2011 | ATP June 29, 2011 | Bearward November 3, 2011 | Fulmer November 18, 2011 | Mors Smitt June 14, 2012 | Tec Tran July 13, 2012 | Winco July 31, 2012 |
|--------------------------------------|---|----------------------------------|--|---|---|---------------------------------------|------------------------------------|
| Current assets | \$ 19,558 | \$ | \$ 14,777 | \$ 4,203 | \$ 23,787 | \$ 1,955 | \$ 1,584 |
| Property, plant & equipment | 8,862 | | 4,498 | 1,636 | 6,960 | 116 | 47 |
| Goodwill and other intangible assets | 30,816 | 21,100 | 43,990 | 8,409 | 85,354 | 6,811 | 7,401 |
| Other assets | | | 53 | | 944 | | |
| Total assets acquired | 59,236 | 21,100 | 63,318 | 14,248 | 117,045 | 8,882 | 9,032 |
| Total liabilities assumed | (28,559) | | (19,532) | (657) | (27,057) | (382) | (5,376) |
| Net assets acquired | \$ 30,677 | \$ 21,100 | \$ 43,786 | \$ 13,591 | \$ 89,988 | \$ 8,500 | \$ 3,656 |

Of the allocation of \$94.8 million of acquired intangible assets for the companies listed in the above table exclusive of goodwill, \$63.1 million was assigned to customer relationships, \$23.0 million was assigned to trade names, \$2.1 million was assigned to a license agreement, \$1.0 million was assigned to non-compete agreements and \$5.6 million was assigned to customer backlog. The trade names are considered to have an indefinite useful life while the customer relationships' average useful life is 19 years, the license agreement's useful life is 20 years, and the non-compete agreements average useful life is two years.

The following unaudited pro forma financial information presents income statement results as if the acquisitions listed above, excluding LH, had occurred on January 1, 2011:

| <i>In thousands</i> | Three Months Ended September 30, 2012 | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2012 | Nine Months Ended September 30, 2011 |
|--|--|--|---|---|
| Net sales | \$ 588,939 | \$ 546,413 | \$ 1,820,046 | \$ 1,574,359 |
| Gross profit | 171,818 | 163,340 | 529,695 | 469,767 |
| Net income attributable to Wabtec shareholders | 63,263 | 53,278 | 188,655 | 139,987 |
| Diluted earnings per share | | | | |
| As Reported | \$ 1.30 | \$ 0.96 | \$ 3.85 | \$ 2.56 |
| Pro forma | \$ 1.31 | \$ 1.10 | \$ 3.90 | \$ 2.90 |

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The components of inventory, net of reserves, were:

| <i>In thousands</i> | September 30, 2012 | December 31, 2011 |
|---------------------|-----------------------|----------------------|
| Raw materials | \$ 165,139 | \$ 154,885 |
| Work-in-process | 135,152 | 110,179 |
| Finished goods | 91,301 | 83,110 |
| Total inventories | \$ 391,592 | \$ 348,174 |

5. INTANGIBLES

Goodwill was \$656.9 million and \$587.5 million at September 30, 2012 and December 31, 2011, respectively. The change in the carrying amount of goodwill by segment for the nine months ended September 30, 2012 is as follows:

| <i>In thousands</i> | Freight Segment | Transit Segment | Total |
|---|--------------------|--------------------|------------|
| Balance at December 31, 2011 | \$ 388,221 | \$ 199,310 | \$ 587,531 |
| Acquisition | 4,781 | 56,778 | 61,559 |
| Adjustment to preliminary purchase allocation | 2,754 | 1,154 | 3,908 |
| Foreign currency impact | 2,116 | 1,819 | 3,935 |
| Balance at September 30, 2012 | \$ 397,872 | \$ 259,061 | \$ 656,933 |

As of September 30, 2012 and December 31, 2011, the Company's trademarks had a net carrying amount of \$126.1 million and \$114.6 million, respectively, and the Company believes these intangibles have an indefinite life. Intangible assets of the Company, other than goodwill and trademarks, consist of the following:

| <i>In thousands</i> | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| Patents and other, net of accumulated amortization of \$34,650 and \$32,316 | \$ 11,799 | \$ 14,849 |
| Customer relationships, net of accumulated amortization of \$28,509 and \$21,295 | 146,973 | 127,960 |
| Total | \$ 158,772 | \$ 142,809 |

The weighted average remaining useful life of patents, customer relationships and intellectual property were five years, 16 years and 17 years, respectively. Amortization expense for intangible assets was \$3.9 million and \$10.3 million for the three and nine months ended September 30, 2012, respectively and \$4.1 million and \$10.5 million for the three and nine months ended September 30, 2011, respectively.

Amortization expense for the five succeeding years is as follows (in thousands):

| | |
|-------------------|----------|
| Remainder of 2012 | \$ 4,521 |
|-------------------|----------|

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| | |
|------|--------|
| 2013 | 13,467 |
| 2014 | 12,630 |
| 2015 | 11,872 |
| 2016 | 11,715 |

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Long-term debt consisted of the following:

| <i>In thousands</i> | September 30, 2012 | December 31, 2011 |
|-------------------------------|-----------------------|----------------------|
| 6.875% Senior Notes, due 2013 | \$ 150,000 | \$ 150,000 |
| Revolving Credit Facility | 282,000 | 245,000 |
| Capital Leases | 897 | 873 |
| Total | 432,897 | 395,873 |
| Less current portion | 43 | 68 |
| Long-term portion | \$ 432,854 | \$ 395,805 |

2011 Refinancing Credit Agreement

On November 7, 2011, the Company refinanced its existing revolving credit and term loan facility with a consortium of commercial banks. This 2011 Refinancing Credit Agreement provides the Company with a \$600 million, five-year revolving credit facility. The Company incurred approximately \$2.0 million of deferred financing cost related to the 2011 Refinancing Credit Agreement. The facility expires on November 7, 2016. The 2011 Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. At September 30, 2012, the Company had available bank borrowing capacity of approximately \$264.6 million, net of \$53.4 million of letters of credit, subject to certain financial covenant restrictions.

Under the 2011 Refinancing Credit Agreement, the Company may elect a Base Rate of interest or an interest rate based on the London Interbank Offered Rate (LIBOR) of interest (the Alternate Rate). The Base Rate adjusts on a daily basis and is the greater of the Federal Funds Effective Rate plus 0.5% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate plus 100 basis points and an additional margin that ranges from 0 to 75 basis points. The Alternate Rate is based on quoted LIBOR rates plus a margin that ranges from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company s consolidated total indebtedness to cash flow ratios. The current Base Rate margin is 0 basis points and the Alternate Rate margin is 100 basis points.

At September 30, 2012 the weighted average interest rate on the Company s variable rate debt was 1.23%. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swap agreements which effectively convert a portion of the debt from a variable to a fixed-rate borrowing during the term of the swap contracts. On September 30, 2012, the notional value of the interest rate swaps outstanding was \$107.0 million and effectively changed the Company s interest rate on bank debt at September 30, 2012 from a variable rate to a fixed rate of 1.82%. The interest rate swap agreements mature on December 31, 2012. 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 with excellent credit ratings and history of performance. The Company currently believes the risk of nonperformance is negligible.

Also, the Company entered into a forward starting interest rate swap agreement with a notional value of \$150.0 million. Effective July 31, 2013, with a termination date of November 7, 2016, the interest rate swap agreement will convert a portion of the Company s then outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 1.415% plus the Alternate Rate margin.

The 2011 Refinancing Credit Agreement limits the Company s ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The 2011 Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations, sales of assets and acquisitions;

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additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; and imposes a minimum interest expense coverage ratio of 3.0 and a maximum debt to cash flow ratio of 3.25. The Company does not expect that these measurements will limit the Company in executing our operating activities.

6.875% Senior Notes Due August 2013

In August 2003, the Company issued \$150.0 million of Senior Notes due in 2013 (the Notes). The Notes were issued at par. Interest on the Notes accrues at a rate of 6.875% per annum and is payable semi-annually on January 31 and July 31 of each year. The proceeds were used to repay debt outstanding under the Company's existing credit agreement, and for general corporate purposes. The principal balance is due in full at maturity. The Company has both the intent and ability to refinance the Notes, maturing August 2013, on a long term basis utilizing capacity under the 2011 Refinancing Credit Agreement. The 2011 Refinancing Credit Agreement will provide available bank borrowing capacity sufficient to refinance the Notes on a long-term basis. The Notes are included in the long-term portion of debt as of September 30, 2012.

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

7. EMPLOYEE BENEFIT PLANS**Defined Benefit Pension Plans**

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

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

| <i>In thousands, except percentages</i> | U.S. | | International | |
|---|-------------------------------------|---------------|-------------------------------------|-----------------|
| | Three months ended September 30, | | Three months ended September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net periodic benefit cost | | | | |
| Service cost | \$ 94 | \$ 84 | \$ 493 | \$ 805 |
| Interest cost | 501 | 582 | 1,773 | 1,886 |
| Expected return on plan assets | (771) | (796) | (2,035) | (2,124) |
| Net amortization/deferrals | 659 | 710 | 681 | 533 |
| Settlement loss recognized | | | 844 | 132 |
| Net periodic benefit cost | \$ 483 | \$ 580 | \$ 1,756 | \$ 1,232 |
| Assumptions | | | | |
| Discount rate | 4.30% | 5.20% | 4.96% | 5.43% |
| Expected long-term rate of return | 7.50% | 8.00% | 6.12% | 6.72% |
| Rate of compensation increase | 3.00% | 3.00% | 3.21% | 3.17% |

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| <i>In thousands, except percentages</i> | U.S. | | International | |
|---|------------------------------------|-----------------|------------------------------------|-----------------|
| | Nine months ended September 30, | | Nine months ended September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net periodic benefit cost | | | | |
| Service cost | \$ 285 | \$ 232 | \$ 1,479 | \$ 2,427 |
| Interest cost | 1,585 | 1,820 | 5,309 | 5,735 |
| Expected return on plan assets | (2,321) | (2,498) | (6,085) | (6,418) |
| Net amortization/deferrals | 2,272 | 1,923 | 2,032 | 1,551 |
| Settlement loss recognized | | | 1,137 | 720 |
| Net periodic benefit cost | \$ 1,821 | \$ 1,477 | \$ 3,872 | \$ 4,015 |

Assumptions

| | | | | |
|-----------------------------------|-------|-------|-------|-------|
| Discount rate | 4.30% | 5.20% | 4.96% | 5.43% |
| Expected long-term rate of return | 7.50% | 8.00% | 6.12% | 6.72% |
| Rate of compensation increase | 3.00% | 3.00% | 3.21% | 3.17% |

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense. The Company expects to contribute \$1.6 million to the U.S. plans and \$6.4 million to the international plans during 2012.

Post Retirement Benefit Plans

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

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

| <i>In thousands, except percentages</i> | U.S. | | International | |
|---|-------------------------------------|---------------|-------------------------------------|----------------|
| | Three months ended September 30, | | Three months ended September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net periodic benefit cost | | | | |
| Service cost | \$ (1) | \$ 4 | \$ 11 | \$ 14 |
| Interest cost | 339 | 410 | 51 | 58 |
| Net amortization/deferrals | (212) | (186) | (83) | (97) |
| Net periodic benefit cost | \$ 126 | \$ 228 | \$ (21) | \$ (25) |

Assumptions

| | | | | |
|---------------|-------|-------|-------|-------|
| Discount rate | 4.30% | 5.20% | 5.15% | 5.50% |
|---------------|-------|-------|-------|-------|

| <i>In thousands, except percentages</i> | U.S. | | International | |
|---|------------------------------------|---------------|------------------------------------|----------------|
| | Nine months ended September 30, | | Nine months ended September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net periodic benefit cost | | | | |
| Service cost | \$ 18 | \$ 24 | \$ 33 | \$ 42 |
| Interest cost | 1,040 | 1,208 | 151 | 175 |
| Net amortization/deferrals | (613) | (675) | (247) | (292) |
| Net periodic benefit cost | \$ 445 | \$ 557 | \$ (63) | \$ (75) |

Assumptions

| | | | | |
|---------------|-------|-------|-------|-------|
| Discount rate | 4.30% | 5.20% | 5.15% | 5.50% |
|---------------|-------|-------|-------|-------|

Table of Contents**8. STOCK-BASED COMPENSATION**

As of September 30, 2012, the Company maintains employee stock-based compensation plans for stock options, restricted stock, restricted units, and incentive stock awards as governed by the 2011 Stock Incentive Compensation Plan (the 2011 Plan) and the 2000 Stock Incentive Plan, as amended (the 2000 Plan). The 2011 Plan was approved by stockholders of Wabtec on May 11, 2011. The Company also maintains a Non-Employee Directors Fee and Stock Option Plan (Directors Plan). No awards may be made under the 2000 Plan or the Directors Plan subsequent to October 31, 2016. The 2011 Plan has a 10-year term through March 27, 2021 and provides a maximum of 1,900,000 shares for grants or awards.

Stock-based compensation expense was \$5.4 million and \$3.9 million for the three months ended September 30, 2012 and 2011, respectively. Stock-based compensation expense was \$15.4 million and \$13.2 million for the nine months ended September 30, 2012 and 2011, respectively. Included in the stock-based compensation expense for the nine months ended September 30, 2012 above is \$1.9 million of expense related to stock options, \$3.6 million related to restricted stock, \$388,000 related to restricted units, \$8.9 million related to incentive stock awards and \$600,000 related to awards issued for Directors fees. At September 30, 2012, unamortized compensation expense related to stock options, restricted stock, restricted units and incentive stock awards expected to vest totaled \$25.5 million and will be recognized over a weighted average period of 1.2 years.

Stock Options Stock options are granted to eligible employees and directors at the fair market value, which is the average of the high and low Wabtec stock price on the date of grant. Under the 2011 Plan and the 2000 Plan, options become exercisable over a four-year vesting period and expire 10 years from the date of grant. Under the Directors Plan, options become exercisable over a three-year vesting period and expire 10 years from the date of grant.

The following table summarizes the Company's stock option activity and related information for the 2011 Plan, the 2000 Plan and the Directors Plan for the nine months ended September 30, 2012:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate intrinsic value (in thousands) |
|-----------------------------------|-----------|---------------------------------|---|--|
| Outstanding at December 31, 2011 | 862,392 | \$ 34.74 | 6.5 | \$ 30,362 |
| Granted | 75,698 | 70.71 | | 725 |
| Exercised | (125,788) | 24.01 | | (7,079) |
| Canceled | (26,717) | 34.46 | | (1,224) |
| Outstanding at September 30, 2012 | 785,585 | \$ 39.94 | 6.4 | \$ 31,701 |
| Exercisable at September 30, 2012 | 498,381 | \$ 32.95 | 6.2 | \$ 23,592 |

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:

| | Nine months ended September 30, | |
|-------------------------|---------------------------------|-------|
| | 2012 | 2011 |
| Dividend yield | .23% | .08% |
| Risk-free interest rate | 1.35% | 2.96% |
| Stock price volatility | 44.95% | 45.6% |
| Expected life (years) | 5.0 | 5.0 |

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

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Restricted Stock, Restricted Units and Incentive Stock Beginning in 2006 the Company adopted a restricted stock program. As provided for under the 2011 and 2000 Plans, eligible employees are granted restricted stock or restricted units that generally vest over four years from the date of grant. Under the Directors Plan, restricted stock awards vest one year from the date of grant.

In addition, the Company has annually issued incentive stock awards to eligible employees that vest, upon attainment of certain three year performance goals. Based on the Company's performance for each three year period then ended, the incentive stock awards can vest and be awarded ranging from 0% to 200% of the initial incentive stock awards granted. The incentive stock awards included in the table below represent the number of shares that are expected to vest based on the Company's estimate for meeting those established performance targets. As of September 30, 2012, the Company estimates that it will achieve 200%, 200% and 126% for the incentive stock awards expected to vest based on performance for the three year periods ending December 31, 2012, 2013, and 2014, respectively, and has recorded incentive compensation expense accordingly. If our estimate of the number of these stock awards expected to vest changes in a future accounting period, cumulative compensation expense could increase or decrease and will be recognized in the current period for the elapsed portion of the vesting period and would change future expense for the remaining vesting period.

Compensation expense for the restricted stock and incentive stock awards is based on the average of the high and low Wabtec stock price on the date of grant and recognized over the applicable vesting period.

The following table summarizes the restricted stock and unit activity for the 2011 Plan, the 2000 Plan and the Directors Plan, and incentive stock awards activity for the 2011 Plan and the 2000 Plan with related information for the nine months ended September 30, 2012:

| | Restricted Stock and Units | Incentive Stock Awards | Weighted Average Grant Date Fair Value |
|--|---|---------------------------------------|---|
| Outstanding at December 31, 2011 | 274,609 | 646,362 | \$ 44.04 |
| Granted | 110,980 | 118,660 | 70.85 |
| Vested | (98,694) | (122,079) | 35.73 |
| Adjustment for incentive stock awards expected to vest | | 45,784 | 60.61 |
| Canceled | (13,008) | (2,219) | 42.96 |
| Outstanding at September 30, 2012 | 273,887 | 686,508 | \$ 53.17 |

9. INCOME TAXES

The overall effective income tax rate was 31.8% and 33.3% for the three and nine months ended September 30, 2012, respectively, and 33.6% and 33.2% for the three and nine months ended September 30, 2011, respectively. The decrease in the effective tax rate for the three months ended September 30, 2012 is primarily due to refund claims filed in the current quarter.

As of September 30, 2012, the liability for income taxes associated with uncertain tax positions is \$9.7 million, of which \$3.9 million, if recognized would favorably affect the Company's effective tax rate. As of December 31, 2011 the liability associated with uncertain tax positions was \$8.2 million, of which \$2.1 million, if recognized, would favorably affect the Company's effective tax rate.

The Company includes interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2012 the total accrued interest and penalties are \$2.6 million and \$1.4 million, respectively. As of December 31, 2011 the total accrued interest and penalties were \$2.8 million and \$1.5 million, respectively.

The Internal Revenue Service is currently auditing the 2009 and 2010 tax years. With limited exception, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for years before 2009.

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At this time, the Company believes that it is reasonably possible that unrecognized tax benefits of approximately \$1.1 million may change within the next 12 months due to the expiration of statutory review periods and current examinations.

10. EARNINGS PER SHARE

The computation of basic and diluted earnings per share for net income attributable to Wabtec shareholders is as follows:

| <i>In thousands, except per share</i> | Three Months Ended September 30, | |
|---|---|-------------|
| | 2012 | 2011 |
| Numerator | | |
| Numerator for basic and diluted earnings per common share net income attributable to Wabtec shareholders | \$ 62,994 | \$ 46,600 |
| Less: dividends declared common shares and non-vested restricted stock | (2,376) | (1,442) |
| Undistributed earnings | 60,618 | 45,158 |
| Percentage allocated to common shareholders(1) | 99.5% | 99.5% |
| | 60,315 | 44,932 |
| Add: dividends declared common shares | 2,364 | 1,435 |
| Numerator for basic and diluted earnings per common share | \$ 62,679 | \$ 46,367 |
| Denominator | | |
| Denominator for basic earnings per common share weighted-average shares | 47,643 | 47,874 |
| Effect of dilutive securities: | | |
| Assumed conversion of dilutive stock-based compensation plans | 628 | 492 |
| Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion | 48,271 | 48,366 |
| Net income per common share attributable to Wabtec shareholders | | |
| Basic | \$ 1.32 | \$ 0.97 |
| Diluted | \$ 1.30 | \$ 0.96 |
| (1) Basic weighted-average common shares outstanding | 47,643 | 47,874 |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest | 47,874 | 48,123 |
| Percentage allocated to common shareholders | 99.5% | 99.5% |

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| <i>In thousands, except per share</i> | Nine Months Ended September 30, | |
|---|--|-------------|
| | 2012 | 2011 |
| Numerator | | |
| Numerator for basic and diluted earnings per common share net income attributable to Wabtec shareholders | \$ 186,967 | \$ 123,886 |
| Less: dividends declared common shares and non-vested restricted stock | (5,256) | (2,407) |
| Undistributed earnings | 181,711 | 121,479 |
| Percentage allocated to common shareholders(1) | 99.5% | 99.5% |
| | 180,802 | 120,872 |
| Add: dividends declared common shares | 5,229 | 2,395 |
| Numerator for basic and diluted earnings per common share | \$ 186,031 | \$ 123,267 |
| Denominator | | |
| Denominator for basic earnings per common share weighted-average shares | 47,732 | 47,827 |
| Effect of dilutive securities: | | |
| Assumed conversion of dilutive stock-based compensation plans | 628 | 500 |
| Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion | 48,360 | 48,327 |
| Net income per common share attributable to Wabtec shareholders | | |
| Basic | \$ 3.90 | \$ 2.58 |
| Diluted | \$ 3.85 | \$ 2.56 |
| (1) Basic weighted-average common shares outstanding | 47,732 | 47,827 |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest | 47,977 | 48,064 |
| Percentage allocated to common shareholders | 99.5% | 99.5% |

The Company's non-vested restricted stock contains rights to receive nonforfeitable dividends, and thus, are participating securities requiring the two-class method of computing earnings per share. The calculation of earnings per share for common stock shown above excludes the income attributable to the non-vested restricted stock from the numerator and excludes the dilutive impact of those shares from the denominator.

11. WARRANTIES

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

| <i>In thousands</i> | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2012 | 2011 |
| Balance at December 31, 2011 and 2010, respectively | \$ 50,640 | \$ 35,513 |
| Warranty expense | 18,334 | 12,602 |
| Acquisitions | 494 | 12,008 |
| Warranty claim payments | (11,971) | (12,921) |
| Balance at September 30, 2012 and 2011, respectively | \$ 57,497 | \$ 47,202 |

12. FAIR VALUE MEASUREMENT

ASC 820 Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value and explains the related disclosure requirements. ASC 820 indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the

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principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability and defines fair value based upon an exit price model.

Valuation Hierarchy ASC 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the liabilities carried at fair value measured on a recurring basis as of September 30, 2012, which are included in other current liabilities on the Condensed Consolidated Balance sheet:

| <i>In thousands</i> | Fair Value Measurements at September 30, 2012 Using | | | |
|-------------------------------|---|--|---|---|
| | Total Carrying Value at September 30, 2012 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Interest rate swap agreements | 4,507 | | 4,507 | |
| Total | \$ 4,507 | \$ | \$ 4,507 | \$ |

The following table provides the liabilities carried at fair value measured on a recurring basis as of December 31, 2011, which is included in other current liabilities on the Condensed Consolidated Balance sheet:

| <i>In thousands</i> | Fair Value Measurements at December 31, 2011 Using | | | |
|-------------------------------|--|--|---|---|
| | Total Carrying Value at December 31, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Interest rate swap agreements | 1,442 | | 1,442 | |
| Total | \$ 1,442 | \$ | \$ 1,442 | \$ |

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company entered into interest rate swaps which effectively converted a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. For certain derivative contracts whose fair values are based upon trades in liquid markets, such as interest rate swaps, valuation model inputs can generally be verified and valuation techniques do not involve significant management judgment. The fair values of such financial instruments are generally classified within Level 2 of the fair value hierarchy.

13. COMMITMENTS AND CONTINGENCIES

Claims have been filed against the Company and certain of its affiliates in various jurisdictions across the United States by persons alleging bodily injury as a result of exposure to asbestos-containing products. Further information and detail on these claims is described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, in Note 18 therein, filed on February 24, 2012. During the first nine months for 2012, there were no material changes to the information described in the Form 10-K.

The Company is also subject to litigation from time to time arising out of its operations in the ordinary course of business, including claims based on product liability, contracts, intellectual property, or other causes of action. Further information and detail on any potentially material litigation is as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, in Note 18 therein, filed on February 24, 2012. During the first nine months of 2012, there were no material changes to the information described in the Form 10-K.

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The Company is also subject to other commitments and contingencies arising from environmental conditions or regulations as described in its Annual Report on Form 10-K for the year ended December 31, 2011, in Note 18 therein, filed on February 24, 2012. During the first nine months of 2012, there were no material changes to the information described in the Form 10-K.

14. SEGMENT INFORMATION

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

Freight Segment primarily manufactures and services components for new and existing freight cars and locomotives, builds new switcher locomotives, rebuilds freight locomotives, supplies railway electronics, positive train control equipment, signal design and engineering services, friction products, and provides related heat exchange and cooling systems. Customers include large, publicly traded railroads, leasing companies, manufacturers of original equipment such as locomotives and freight cars, and utilities.

Transit Segment primarily manufactures and services components for new and existing passenger transit vehicles, typically subway cars and buses, builds new commuter locomotives, friction products, and refurbishes subway cars. Customers include public transit authorities and municipalities, leasing companies, and manufacturers of subway cars and buses around the world.

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

Segment financial information for the three months ended September 30, 2012 is as follows:

| <i>In thousands</i> | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total |
|---|------------------------|------------------------|---|-------------------|
| Sales to external customers | \$ 354,659 | \$ 232,934 | \$ | \$ 587,593 |
| Intersegment sales/(elimination) | 5,662 | 3,231 | (8,893) | |
| Total sales | \$ 360,321 | \$ 236,165 | \$ (8,893) | \$ 587,593 |
| Income (loss) from operations | \$ 75,702 | \$ 24,385 | \$ (3,245) | \$ 96,842 |
| Interest expense and other, net | | | (4,463) | (4,463) |
| Income (loss) from operations before income taxes | \$ 75,702 | \$ 24,385 | \$ (7,708) | \$ 92,379 |

Segment financial information for the three months ended September 30, 2011 is as follows:

| <i>In thousands</i> | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total |
|----------------------------------|------------------------|------------------------|---|-------------------|
| Sales to external customers | \$ 315,837 | \$ 183,003 | \$ | \$ 498,840 |
| Intersegment sales/(elimination) | 4,626 | 2,955 | (7,581) | |
| Total sales | \$ 320,463 | \$ 185,958 | \$ (7,581) | \$ 498,840 |
| Income (loss) from operations | \$ 60,709 | \$ 20,803 | \$ (6,059) | \$ 75,453 |
| Interest expense and other, net | | | (5,293) | (5,293) |

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| | | | | |
|---|-----------|-----------|-------------|-----------|
| Income (loss) from operations before income taxes | \$ 60,709 | \$ 20,803 | \$ (11,352) | \$ 70,160 |
|---|-----------|-----------|-------------|-----------|

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Segment financial information for the nine months ended September 30, 2012 is as follows:

| <i>In thousands</i> | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total |
|---|----------------------------|----------------------------|---|---------------------|
| Sales to external customers | \$ 1,159,653 | \$ 621,069 | \$ | \$ 1,780,722 |
| Intersegment sales/(elimination) | 17,214 | 8,659 | (25,873) | |
| Total sales | \$ 1,176,867 | \$ 629,728 | \$ (25,873) | \$ 1,780,722 |
| Income (loss) from operations | \$ 234,734 | \$ 68,934 | \$ (11,851) | \$ 291,817 |
| Interest expense and other, net | | | (11,587) | (11,587) |
| Income (loss) from operations before income taxes | \$ 234,734 | \$ 68,934 | \$ (23,438) | \$ 280,230 |

Segment financial information for the nine months ended September 30, 2011 is as follows:

| <i>In thousands</i> | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total |
|---|----------------------------|----------------------------|---|---------------------|
| Sales to external customers | \$ 860,729 | \$ 572,269 | \$ | \$ 1,432,998 |
| Intersegment sales/(elimination) | 12,536 | 4,989 | (17,525) | |
| Total sales | \$ 873,265 | \$ 577,258 | \$ (17,525) | \$ 1,432,998 |
| Income (loss) from operations | \$ 160,682 | \$ 70,976 | \$ (33,466) | \$ 198,192 |
| Interest expense and other, net | | | (12,720) | (12,720) |
| Income (loss) from operations before income taxes | \$ 160,682 | \$ 70,976 | \$ (46,186) | \$ 185,472 |

Sales by product are as follows:

| <i>In thousands</i> | Three Months Ended September 30, | |
|-----------------------------------|---|-------------------|
| | 2012 | 2011 |
| Specialty Products & Electronics | \$ 264,094 | \$ 231,983 |
| Remanufacturing, Overhaul & Build | 129,597 | 83,673 |
| Brake Products | 127,027 | 121,372 |
| Other Transit Products | 49,141 | 45,753 |
| Other | 17,734 | 16,059 |
| Total sales | \$ 587,593 | \$ 498,840 |

Sales by product are as follows:

**Nine Months Ended
September 30,**

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| <i>In thousands</i> | 2012 | 2011 |
|-----------------------------------|--------------|--------------|
| Specialty Products & Electronics | \$ 841,382 | \$ 622,857 |
| Brake Products | 386,640 | 372,815 |
| Remanufacturing, Overhaul & Build | 348,252 | 245,330 |
| Other Transit Products | 149,941 | 145,637 |
| Other | 54,507 | 46,359 |
| Total sales | \$ 1,780,722 | \$ 1,432,998 |

Table of Contents**15. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION**

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

Balance Sheet as of September 30, 2012:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|--|---------------------|---------------------|-----------------------|-----------------------|---------------------|
| Cash and cash equivalents | \$ 76,210 | \$ 5,622 | \$ 200,223 | \$ | \$ 282,055 |
| Accounts receivable | 75 | 243,220 | 186,935 | | 430,230 |
| Inventories | | 270,873 | 120,719 | | 391,592 |
| Other current assets | 62,889 | 6,500 | 10,783 | | 80,172 |
| Total current assets | 139,174 | 526,215 | 518,660 | | 1,184,049 |
| Property, plant and equipment | 4,243 | 125,031 | 99,873 | | 229,147 |
| Goodwill | 7,980 | 407,324 | 241,629 | | 656,933 |
| Investment in subsidiaries | 3,070,357 | 193,978 | | (3,264,335) | |
| Other intangibles | | 166,620 | 118,269 | | 284,889 |
| Other long term assets | (10,340) | 3,377 | 47,987 | | 41,024 |
| Total Assets | \$ 3,211,414 | \$ 1,422,545 | \$ 1,026,418 | \$ (3,264,335) | \$ 2,396,042 |
| Current liabilities | \$ 48,977 | \$ 326,916 | \$ 164,799 | \$ | \$ 540,692 |
| Inter-company | 1,427,896 | (1,588,017) | 160,121 | | |
| Long-term debt | 432,000 | 175 | 679 | | 432,854 |
| Other long term liabilities | 71,524 | 31,658 | 88,297 | | 191,479 |
| Total liabilities | 1,980,397 | (1,229,268) | 413,896 | | 1,165,025 |
| Stockholders equity | 1,231,017 | 2,651,813 | 612,522 | (3,264,335) | 1,231,017 |
| Total Liabilities and Stockholders Equity | \$ 3,211,414 | \$ 1,422,545 | \$ 1,026,418 | \$ (3,264,335) | \$ 2,396,042 |

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Balance Sheet as of December 31, 2011:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---------------------|---------------------|-------------------|-----------------------|---------------------|
| Cash and cash equivalents | \$ 75,621 | \$ 14,024 | \$ 195,970 | \$ | \$ 285,615 |
| Accounts receivable | 186 | 196,909 | 149,186 | | 346,281 |
| Inventories | | 250,280 | 97,894 | | 348,174 |
| Other current assets | 59,990 | 5,989 | 9,733 | | 75,712 |
| Total current assets | 135,797 | 467,202 | 452,783 | | 1,055,782 |
| Property, plant and equipment, net | 3,655 | 123,182 | 95,185 | | 222,022 |
| Goodwill | 7,980 | 399,419 | 180,132 | | 587,531 |
| Investment in subsidiaries | 2,675,378 | 183,357 | | (2,858,735) | |
| Other intangibles, net | | 174,351 | 83,004 | | 257,355 |
| Other long term assets | (9,946) | 5,640 | 40,569 | | 36,263 |
| Total assets | \$ 2,812,864 | \$ 1,353,151 | \$ 851,673 | \$ (2,858,735) | \$ 2,158,953 |
| Current liabilities | \$ 72,396 | \$ 282,671 | \$ 186,318 | | \$ 541,385 |
| Intercompany | 1,222,650 | (1,303,441) | 80,791 | | |
| Long-term debt | 395,000 | 198 | 607 | | 395,805 |
| Other long term liabilities | 75,174 | 33,790 | 65,155 | | 174,119 |
| Total liabilities | 1,765,220 | (986,782) | 332,871 | | 1,111,309 |
| Stockholders' equity | 1,047,644 | 2,339,933 | 518,802 | (2,858,735) | 1,047,644 |
| Total Liabilities and Stockholders' Equity | \$ 2,812,864 | \$ 1,353,151 | \$ 851,673 | \$ (2,858,735) | \$ 2,158,953 |

Income Statement for the Three Months Ended September 30, 2012:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|------------------|-------------------|------------------|---------------------|------------------|
| Net sales | \$ | \$ 405,624 | \$ 219,621 | \$ (37,652) | \$ 587,593 |
| Cost of sales | (428) | (264,211) | (169,652) | 17,977 | (416,314) |
| Gross (loss) profit | (428) | 141,413 | 49,969 | (19,675) | 171,279 |
| Operating expenses | (14,584) | (37,786) | (22,067) | | (74,437) |
| Operating (loss) profit | (15,012) | 103,627 | 27,902 | (19,675) | 96,842 |
| Interest (expense) income, net | (5,459) | 3,305 | (916) | | (3,070) |
| Other income (expense), net | 100 | (860) | (633) | | (1,393) |
| Equity earnings | 102,624 | 24,971 | | (127,595) | |
| Income (loss) from operations before income tax | 82,253 | 131,043 | 26,353 | (147,270) | 92,379 |
| Income tax expense | (19,259) | (3,428) | (6,698) | | (29,385) |
| Net income (loss) attributable to Wabtec shareholders | \$ 62,994 | \$ 127,615 | \$ 19,655 | \$ (147,270) | \$ 62,994 |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 62,296 | \$ 127,615 | \$ 31,571 | \$ (147,270) | \$ 74,212 |

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

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Income Statement for the Three Months Ended September 30, 2011:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|-----------|------------|----------------|----------------|--------------|
| Net sales | \$ | \$ 352,493 | \$ 182,465 | \$ (36,118) | \$ 498,840 |
| Cost of sales | (903) | (216,913) | (147,007) | 13,134 | (351,689) |
| Gross (loss) profit | (903) | 135,580 | 35,458 | (22,984) | 147,151 |
| Operating expenses | (16,021) | (37,922) | (17,755) | | (71,698) |
| Operating (loss) profit | (16,924) | 97,658 | 17,703 | (22,984) | 75,453 |
| Interest (expense) income, net | (5,538) | 1,178 | 596 | | (3,764) |
| Other income (expense), net | 173 | 211 | (1,913) | | (1,529) |
| Equity earnings | 82,561 | 21,337 | | (103,898) | |
| Income (loss) from operations before income tax | 60,272 | 120,384 | 16,386 | (126,882) | 70,160 |
| Income tax expense | (13,672) | (2,868) | (7,020) | | (23,560) |
| Net income (loss) attributable to Wabtec shareholders | \$ 46,600 | \$ 117,516 | \$ 9,366 | \$ (126,882) | \$ 46,600 |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 48,788 | \$ 117,516 | \$ (28,426) | \$ (126,882) | \$ 10,996 |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.
Income Statement for the Nine Months Ended September 30, 2012:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|------------|--------------|----------------|----------------|--------------|
| Net sales | \$ | \$ 1,251,666 | \$ 653,230 | \$ (124,174) | \$ 1,780,722 |
| Cost of sales | (776) | (810,101) | (507,413) | 51,655 | (1,266,635) |
| Gross (loss) profit | (776) | 441,565 | 145,817 | (72,519) | 514,087 |
| Operating expenses | (47,356) | (115,649) | (59,265) | | (222,270) |
| Operating (loss) profit | (48,132) | 325,916 | 86,552 | (72,519) | 291,817 |
| Interest (expense) income, net | (16,291) | 5,489 | 499 | | (10,303) |
| Other income (expense), net | 8,221 | (6,954) | (2,551) | | (1,284) |
| Equity earnings | 304,263 | 61,931 | | (366,194) | |
| Income (loss) from operations before income tax | 248,061 | 386,382 | 84,500 | (438,713) | 280,230 |
| Income tax expense | (61,094) | (10,239) | (21,930) | | (93,263) |
| Net income (loss) attributable to Wabtec shareholders | \$ 186,967 | \$ 376,143 | \$ 62,570 | \$ (438,713) | \$ 186,967 |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 186,486 | \$ 376,143 | \$ 68,868 | \$ (438,713) | \$ 192,784 |

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

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Income Statement for the Nine Months Ended September 30, 2011:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|---------------|-------------------|-----------------------|-----------------------|---------------------|
| Net sales | \$ | \$ 1,006,000 | \$ 527,089 | \$ (100,091) | \$ 1,432,998 |
| Cost of sales | (1,282) | (645,743) | (405,980) | 43,097 | (1,009,908) |
| Gross (loss) profit | (1,282) | 360,257 | 121,109 | (56,994) | 423,090 |
| Operating expenses | (64,002) | (106,670) | (54,226) | | (224,898) |
| Operating (loss) profit | (65,284) | 253,587 | 66,883 | (56,994) | 198,192 |
| Interest (expense) income, net | (16,501) | 3,463 | 1,797 | | (11,241) |
| Other income (expense), net | 7,567 | (816) | (8,230) | | (1,479) |
| Equity earnings | 231,392 | 49,370 | | (280,762) | |
| Income (loss) from operations before income tax | 157,174 | 305,604 | 60,450 | (337,756) | 185,472 |
| Income tax expense | (33,288) | (9,897) | (18,401) | | (61,586) |
| Net income (loss) attributable to Wabtec shareholders | \$ 123,866 | \$ 295,707 | \$ 42,049 | \$ (337,756) | \$ 123,886 |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 126,663 | \$ 295,707 | \$ 31,353 | \$ (337,756) | \$ 115,967 |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.
Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2012:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|--|---------------|-------------------|-----------------------|--------------------|---------------------|
| Net cash (used for) provided by operating activities | \$ (4,856) | \$ 390,163 | \$ 166,931 | \$ (438,713) | \$ 113,525 |
| Net cash used for investing activities | (3,841) | (22,366) | (99,860) | | (126,067) |
| Net cash provided by (used for) financing activities | 9,286 | (376,199) | (62,506) | 438,713 | 9,294 |
| Effect of changes in currency exchange rates | | | (312) | | (312) |
| Increase (decrease) in cash | 589 | (8,402) | 4,253 | | (3,560) |
| Cash, beginning of year | 75,621 | 14,024 | 195,970 | | 285,615 |
| Cash, end of period | \$ 76,210 | \$ 5,622 | \$ 200,223 | \$ | \$ 282,055 |

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Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2011:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|--|-----------|------------|----------------|--------------|--------------|
| Net cash provided by (used for) operating activities | \$ 9,543 | \$ 321,525 | \$ 106,708 | \$ (337,756) | \$ 100,020 |
| Net cash used for investing activities | (4,082) | (30,033) | (39,548) | | (73,663) |
| Net cash (used for) provided by financing activities | (33,944) | (295,753) | (41,923) | 337,756 | (33,864) |
| Effect of changes in currency exchange rates | | | (8,298) | | (8,298) |
| (Decrease) increase in cash | (28,483) | (4,261) | 16,939 | | (15,805) |
| Cash, beginning of year | 42,714 | 13,226 | 181,001 | | 236,941 |
| Cash, end of period | \$ 14,231 | \$ 8,965 | \$ 197,940 | \$ | \$ 221,136 |

16. OTHER INCOME (EXPENSE), NET

The components of other income (expense) are as follows:

| <i>In thousands</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Foreign currency loss | \$ (1,468) | \$ (1,795) | \$ (427) | \$ (2,061) |
| Other miscellaneous income (expense) | 75 | 266 | (857) | 582 |
| Total other (expense) income, net | \$ (1,393) | \$ (1,529) | \$ (1,284) | \$ (1,479) |

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Technologies Corporation's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission on February 24, 2012.

OVERVIEW

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 20 countries. In the first nine months of 2012, about 50% of the Company's revenues came from customers outside the U.S.

Management Review and Future Outlook

Wabtec's long-term financial goals are to generate cash flow in excess of net income, maintaining a strong credit profile while minimizing our overall cost of capital; increase margins through strict attention to cost controls and implementation of the Wabtec Performance System; and increase revenues through a focused growth strategy, including global and market expansion, new products and technologies, aftermarket products and services, and acquisitions. In addition, Management evaluates the Company's current operational performance through measures such as quality and on-time delivery.

The Company monitors a variety of factors and statistics to gauge market activity. The North America freight rail industry is largely driven by general economic conditions, which can cause fluctuations in rail traffic. Based on those fluctuations, railroads can increase or decrease purchases of new locomotives and freight cars. In 2011 U.S. freight rail traffic increased due to the improving overall economy, which had a favorable effect on the Company's Freight Segment, with increased demand for new locomotives and freight cars, and for aftermarket products and services. Through mid-October, 2012 compared to the previous year, according to the Association of American Railroads, carloadings decreased 2.7% and revenue ton-miles decreased 1.7%, while intermodal loadings increased 3.7%. Excluding coal, carloadings increased 3.1%. In 2012, the number of new locomotives delivered is expected to be about 1,200 compared to about 1,100 in 2011. The number of new freight cars delivered is expected to be about 60,000 compared to about 47,000 in 2011.

The North American transit rail industry is driven by government spending and ridership. According to the American Public Transportation Association, ridership increased 2.3% in 2011 and 2% in the second quarter of 2012. In June 2012, the U.S. federal government passed a two-year transportation funding bill, called MAP-21. As part of this bill, funding for transit programs is expected to be about \$10.5 billion in each of the next two fiscal years, about the same as it was in the previous three years. Most government entities at all levels continue to face budget issues, which could have a negative effect on demand for the Company's products and services.

In 2008, the U.S. government enacted rail safety legislation that requires certain freight and passenger railroads to equip certain locomotives with positive train control (PTC) technology by the end of 2015. This technology includes an on-board locomotive computer and related software, which are being developed by Wabtec. As the industry leader, Wabtec expects to benefit from increased sales of train control-related products and engineering services as the technology is deployed throughout the industry. Wabtec expects PTC revenue to exceed \$200 million in 2012 compared to about \$125 million in 2011.

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Wabtec continues to expand its presence in freight rail and passenger transit markets outside the U.S., particularly in Europe, Asia-Pacific and South America. In Europe, the majority of the rail system serves the passenger transit market, which is larger than the transit market in the U.S. Our presence in the U.K., Germany, Italy and the Netherlands has positioned the Company to take advantage of this market. Asia-Pacific is a growth market and our various joint ventures and direct exports to China have positioned the Company to take advantage of this growth. Economic growth in Australia and Brazil led to growth for the Company in those markets as commodity suppliers use our products to meet the demands of their regional customers.

This year and beyond, general economic and market conditions in the United States and internationally could have an impact on our sales and operations. To the extent that these factors cause instability of capital markets, shortages of raw materials or component parts, longer sales cycles, deferral or delay of customer orders or an inability to market our products effectively, our business and results of operations could be materially adversely affected. In addition, we face risks associated with our four-point growth strategy including the level of investment that customers are willing to make in new technologies developed by the industry and the Company, and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and risks.

RESULTS OF OPERATIONS

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

| <i>In millions</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 587.6 | \$ 498.9 | \$ 1,780.7 | \$ 1,433.0 |
| Cost of sales | (416.3) | (351.7) | (1,266.6) | (1,009.9) |
| Gross profit | 171.3 | 147.2 | 514.1 | 423.1 |
| Selling, general and administrative expenses | (59.8) | (57.7) | (180.9) | (186.4) |
| Engineering expenses | (10.8) | (9.9) | (31.1) | (27.9) |
| Amortization expense | (3.9) | (4.1) | (10.3) | (10.6) |
| Total operating expenses | (74.5) | (71.7) | (222.3) | (224.9) |
| Income from operations | 96.8 | 75.5 | 291.8 | 198.2 |
| Interest expense, net | (3.0) | (3.8) | (10.3) | (11.2) |
| Other income (expense), net | (1.4) | (1.5) | (1.3) | (1.5) |
| Income from operations before income taxes | 92.4 | 70.2 | 280.2 | 185.5 |
| Income tax expense | (29.4) | (23.6) | (93.2) | (61.6) |
| Net income attributable to Wabtec shareholders | \$ 63.0 | \$ 46.6 | \$ 187.0 | \$ 123.9 |

THIRD QUARTER 2012 COMPARED TO THIRD QUARTER 2011

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

| <i>In thousands</i> | Three months ended September 30, | | |
|------------------------|----------------------------------|------------|----------------|
| | 2012 | 2011 | Percent Change |
| Freight Segment | \$ 354,659 | \$ 315,837 | 12.3% |
| Transit Segment | 232,934 | 183,003 | 27.3% |
| Net sales | 587,593 | 498,840 | 17.8% |
| Income from operations | 96,842 | 75,453 | 28.3% |

| | | | |
|--|-----------|-----------|-------|
| Net income attributable to Wabtec shareholders | \$ 62,994 | \$ 46,600 | 35.2% |
|--|-----------|-----------|-------|

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The following table shows the major components of the change in sales in the third quarter of 2012 from the third quarter of 2011:

| <i>In thousands</i> | Freight Segment | Transit Segment | Total |
|---|------------------------|------------------------|--------------|
| Third Quarter 2011 Net Sales | \$ 315,837 | \$ 183,003 | \$ 498,840 |
| Acquisitions | 19,199 | 19,212 | 38,411 |
| <i>Change in Sales by Product Line:</i> | | | |
| Remanufacturing, Overhaul & Build | 4,873 | 24,711 | 29,584 |
| Specialty Products & Electronics | 9,837 | 5,030 | 14,867 |
| Brake Products | 5,735 | 4,410 | 10,145 |
| Other Transit Products | | 3,973 | 3,973 |
| Other | 1,001 | (34) | 967 |
| Foreign Exchange | (1,823) | (7,371) | (9,194) |
| Third Quarter 2012 Net Sales | \$ 354,659 | \$ 232,934 | \$ 587,593 |

Net sales increased by \$88.7 million to \$587.6 million from \$498.9 million for the three months ended September 30, 2012 and 2011, respectively. The increase is due to sales from acquisitions of \$38.4 million; \$29.6 million for Remanufacturing, Overhaul and Build sales from increased demand for freight original equipment locomotives and aftermarket services for locomotives; \$14.9 million for Specialty Products and Electronics sales from increased demand for freight original equipment rail products, positive train control electronics and aftermarket products; and \$10.1 million for Brake Products sales due to higher demand for original equipment brakes. Company net sales decreased \$9.2 million and income from operations decreased \$1.1 million due to unfavorable effects of foreign exchange. Net income for the three months ended September 30, 2012 was \$63.0 million or \$1.30 per diluted share. Net income for the three months ended September 30, 2011 was \$46.6 million or \$0.96 per diluted share.

Freight Segment sales increased by \$38.8 million, or 12.3%, due to \$19.2 million from acquisitions; \$9.8 million for Specialty Products and Electronics, primarily resulting from increased demand for original equipment rail products, positive train control electronics and aftermarket rail products; \$5.7 million for Brake Products; and \$4.9 million from demand for freight original equipment locomotives and aftermarket services for locomotives. For the Freight Segment, net sales decreased by \$1.8 million due to unfavorable effects of foreign exchange.

Transit Segment sales increased by \$49.9 million, or 27.3%, due to higher sales of \$24.7 million from increased demand for transit car rebuild and overhauls; \$19.2 million from acquisitions; \$5.0 million of electronic sales from increased demand for transit positive train control electronics; \$4.4 million for Brake Products; and \$4.0 million from certain transit car build contracts and demand for transit bus doors. For the Transit Segment, net sales decreased by \$7.4 million due to unfavorable effects of foreign exchange.

Cost of Sales and Gross Profit. Cost of Sales increased by \$64.6 million to \$416.3 million in the third quarter of 2012 compared to \$351.7 million in the same period of 2011. In the third quarter of 2012, cost of sales, as a percentage of sales was 70.9% compared to 70.5% in the same period of 2011.

Raw material costs decreased as a percentage of sales to approximately 43% in the third quarter of 2012 from 45% in the same period of 2011. Labor costs increased as a percentage of sales to approximately 12% in the third quarter of 2012 from 11% in the same period of 2011. Overhead costs increased as a percentage of sales to approximately 16% in the third quarter of 2012 from 15% in the same period of 2011. Freight Segment raw material costs decreased as a percentage of sales to approximately 43% in the third quarter of 2012 from 46% in the same period of 2011. Freight Segment labor costs increased as a percentage of sales to approximately 11% in the third quarter of 2012 from 9% in the same period of 2011, and overhead costs increased as a percentage of sales to approximately 15% in the third quarter of 2012 from 14% in the same period of 2011. Transit Segment raw material costs increased as a percentage of sales to approximately 43% in the third quarter of 2012 from 42%

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in the same period of 2011. Transit Segment labor costs decreased as a percentage of sales to approximately 13% in the third quarter of 2012 from 14% in the same period of 2011, and overhead costs increased as a percentage of sales to approximately 19% in the third quarter of 2012 from 17% in the same period of 2011. Freight Segment material costs decreased as a percentage of sales due to favorable raw material pricing and product mix. Freight Segment labor costs increased as a percentage of sales due to higher service related sales, which carry high labor costs on a percentage basis.

In general, raw material costs decreased as a percentage of sales reflecting a higher mix of revenue generated from service related sales, which has a lower raw material component as cost of sales. Overhead costs vary as a percentage of sales depending on product mix and changes in sales volume.

In addition, included in cost of sales is warranty expense. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales, which can cause variability in warranty expense between quarters. Warranty expense was \$2.2 million higher in the third quarter of 2012 compared to the same period of 2011 due to increased sales and increases for certain transit contracts. As a percentage of sales, warranty expense was 0.9% for the third quarter of 2012 compared to 0.6% for the same period in the previous year.

Gross profit increased to \$171.3 million in the third quarter of 2012 compared to \$147.2 million in the same period of 2011, for the reasons discussed above. Accordingly, for the third quarter of 2012, gross profit, as a percentage of sales, was 29.1% compared to 29.5%, for the third quarter of 2011.

Operating expenses The following table shows our operating expenses:

| <i>In thousands</i> | Three months ended September 30, | | |
|--|----------------------------------|-----------|----------------|
| | 2012 | 2011 | Percent Change |
| Selling, general and administrative expenses | \$ 59,743 | \$ 57,676 | 3.6% |
| Engineering expenses | 10,753 | 9,894 | 8.7% |
| Amortization expense | 3,941 | 4,128 | (4.5)% |
| Total operating expenses | \$ 74,437 | \$ 71,698 | 3.8% |

Selling, general, and administrative expenses increased \$2.1 million in the third quarter of 2012 compared to the same period of 2011 primarily due to \$5.6 million of expenses from acquisitions and \$1.6 million of incentive and non-cash compensation, partially offset by a decrease of \$1.6 million for other legal costs and a \$3.5 million decrease in selling, general and administrative expenses resulting from cost saving initiatives. Engineering expense increased by \$0.9 million in the third quarter of 2012 compared to the same period of 2011 as the company focused engineering resources on product development. Costs related to engineering for specific customer contracts are included in cost of sales. Total operating expenses were 12.7% and 14.4% of sales for the third quarter of 2012 and 2011, respectively.

The following table shows our segment operating expense:

| <i>In thousands</i> | Three months ended September 30, | | |
|--------------------------|----------------------------------|-----------|----------------|
| | 2012 | 2011 | Percent Change |
| Freight Segment | \$ 37,621 | \$ 36,589 | 2.8% |
| Transit Segment | 33,571 | 29,050 | 15.6% |
| Corporate | 3,245 | 6,059 | (46.4)% |
| Total operating expenses | \$ 74,437 | \$ 71,698 | 3.8% |

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Segment operating expenses consist of specific segment costs such as, sales and marketing, information technology, insurance, and audit and tax fees, allocated corporate costs, and other segment specific discrete charges. Corporate costs are allocated to the freight and transit segments based on segment revenues. Certain corporate departmental expenses are not allocated.

Freight segment operating expenses increased \$1.0 million in the third quarter of 2012 compared to the same period of 2011 because of \$2.0 million of incremental expense from acquisitions, partially offset by a decrease in selling, general and administrative expenses realized from cost saving initiatives. Freight segment operating expenses were 10.4% and 11.4% of sales for the third quarter of 2012 and 2011, respectively.

Transit segment operating expenses increased \$4.5 million in the third quarter of 2012 compared to the same period of 2011 because of \$3.6 million of incremental expense from acquisitions and an increase of \$0.9 million in the expenses allocated to the operating segments. Transit segment operating expenses were 14.5% and 15.6% of sales for the third quarter of 2012 and 2011, respectively.

Corporate non-allocated operating expenses decreased \$2.8 million in the third quarter of 2012 compared to the same period of 2011 primarily due to other legal cost discussed above and decreases in other non-allocated departmental expenses.

Income from operations Income from operations totaled \$96.8 million or 16.5% of sales in the third quarter of 2012 compared to \$75.5 million or 15.1% of sales in the same period of 2011. Income from operations increased due to higher sales volume, partially offset by higher operating expenses discussed above.

Interest expense, net Overall interest expense, net, was comparable to the prior period.

Other income (expense), net The Company recorded foreign exchange losses of \$1.5 million and \$1.8 million, in the third quarter of 2012 and 2011, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

Income taxes The effective income tax rate was 31.8% and 33.6% for the third quarter of 2012 and 2011, respectively. The decrease in the effective rate is primarily due to refund claims filed in the current quarter.

Net income Net income for the third quarter of 2012 increased \$16.4 million, compared with the same period of 2011. The increase in net income is due to higher sales volume and lower effective tax rate, partially offset by higher operating expenses discussed above.

FIRST NINE MONTHS OF 2012 COMPARED TO FIRST NINE MONTHS OF 2011

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

| <i>In thousands</i> | Nine months ended September 30, | | |
|--|---------------------------------|------------|----------------|
| | 2012 | 2011 | Percent Change |
| Freight Segment | \$ 1,159,653 | \$ 860,729 | 34.7% |
| Transit Segment | 621,069 | 572,269 | 8.5% |
| Net sales | 1,780,722 | 1,432,998 | 24.3% |
| Income from operations | 291,817 | 198,192 | 47.2% |
| Net income attributable to Wabtec shareholders | \$ 186,967 | \$ 123,886 | 50.9% |

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The following table shows the major components of the change in sales in the first nine months of 2012 from the first nine months of 2011:

| <i>In thousands</i> | Freight Segment | Transit Segment | Total |
|---|------------------------|------------------------|--------------|
| First Nine Months of 2011 Net Sales | \$ 860,729 | \$ 572,269 | \$ 1,432,998 |
| Acquisitions | 59,775 | 36,836 | 96,611 |
| <i>Change in Sales by Product Line:</i> | | | |
| Specialty Products & Electronics | 149,911 | 12,602 | 162,513 |
| Remanufacturing, Overhaul & Build | 52,256 | 18,748 | 71,004 |
| Brake Products | 34,321 | (10,238) | 24,083 |
| Other Transit Products | | 5,875 | 5,875 |
| Other | 7,758 | 835 | 8,593 |
| Foreign Exchange | (5,097) | (15,858) | (20,955) |
| First Nine Months of 2012 Net Sales | \$ 1,159,653 | \$ 621,069 | \$ 1,780,722 |

Net sales increased by \$347.7 million to \$1,780.7 million from \$1,433.0 million for the nine months ended September 30, 2012 and 2011, respectively. The increase is due to higher sales of \$162.5 million for Specialty Products and Electronics from increased demand for freight original equipment rail products, positive train control electronics and aftermarket products; \$96.6 million from acquisitions; \$71.0 million for Remanufacturing, Overhaul Build sales from increased demand for freight original equipment locomotives and aftermarket services for locomotives; \$24.1 million for Brake Products sales due to higher demand for original equipment brakes; and \$8.6 million for other products primarily from increased international demand. Company net sales decreased \$21.0 million and income from operations decreased \$2.0 million due to unfavorable effects of foreign exchange. Net income for the nine months ended September 30, 2012 was \$187.0 million or \$3.85 per diluted share. Net income for the nine months ended September 30, 2011 was \$123.9 million or \$2.56 per diluted share. Net income increased due to higher sales volume and decreased operating expenses discussed below.

Freight Segment sales increased by \$298.9 million, or 34.7%, due to higher sales of \$149.9 million for Specialty Products and Electronics, primarily resulting from increased demand for original equipment rail products, positive train control electronics and aftermarket rail products; \$59.8 million from acquisitions; \$52.3 million from demand for freight original equipment locomotives and aftermarket services for locomotives; and \$34.3 million for Brake Products. For the Freight Segment, net sales decreased by \$5.1 million due to unfavorable effects of foreign exchange.

Transit Segment sales increased by \$48.8 million, or 8.5%, due to \$36.8 million from acquisitions; higher sales of \$18.7 million from demand for overhaul and aftermarket services; and \$12.6 million of higher electronic sales from increased demand for transit positive train control electronics. Partially offsetting these increases was a decrease of \$10.2 million from decreased demand for transit brake products and the completion of certain transit locomotive build contracts. For the Transit Segment, net sales decreased by \$15.9 million due to unfavorable effects of foreign exchange.

Cost of Sales and Gross Profit Cost of Sales increased by \$256.7 million to \$1,266.6 million in the first nine months of 2012 compared to \$1,009.9 million in the same period of 2011. In the first nine months of 2012, cost of sales, as a percentage of sales was 71.1% compared to 70.5% in the same period of 2011.

Raw material costs as a percentage of sales were approximately 43% in the first nine months of 2012 and 2011. Labor costs as a percentage of sales were approximately 11% in the first nine months of 2012 and 2011. Overhead costs as a percentage of sales were approximately 17% in the first nine months of 2012 and 2011. Freight Segment raw material costs as a percentage of sales were approximately 44% in the first nine months of 2012 and 2011. Freight Segment labor costs increased as a percentage of sales to approximately 11% in the first nine months of 2012 from 10% in the same period of 2011, and overhead costs as a percentage of sales were approximately 15% in the first nine months of 2012 and 2011. Transit Segment raw material costs decreased as a percentage of sales to

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approximately 42% in the first nine months of 2012 from 43% in the same period of 2011. Transit Segment labor costs increased as a percentage of sales to approximately 13% in the first nine months of 2012 from 12% in the same period of 2011, and overhead costs increased as a percentage of sales to approximately 19% in the first nine months of 2012 from 18% in the same period of 2011. Transit Segment labor costs increased as a percentage of sales due to higher service related sales, which carry higher labor costs on a cost of sales percentage basis. Overhead costs vary as a percentage of sales depending on product mix and changes in sales volume.

In addition, included in cost of sales is warranty expense. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales, which can cause variability in warranty expense between quarters. Warranty expense was \$5.7 million higher in the first nine months of 2012 compared to the same period of 2011 due to increased sales and increases for certain transit contracts. As a percentage of sales, warranty expense was 1.0% for the first nine months of 2012 compared to 0.8% for the same period in the previous year.

Gross profit increased to \$514.1 million in the first nine months of 2012 compared to \$423.1 million in the same period of 2011, for the reasons discussed above. Accordingly, for the first nine months of 2012, gross profit, as a percentage of sales, was 28.9% compared to 29.5%, for the first nine months of 2011.

Operating expenses The following table shows our operating expenses:

| <i>In thousands</i> | Nine months ended September 30, | | |
|--|---------------------------------|------------|----------------|
| | 2012 | 2011 | Percent Change |
| Selling, general and administrative expenses | \$ 180,935 | \$ 186,435 | (3.0)% |
| Engineering expenses | 31,047 | 27,914 | 11.2% |
| Amortization expense | 10,288 | 10,549 | (2.5)% |
| Total operating expenses | \$ 222,270 | \$ 224,898 | (1.2)% |

Selling, general, and administrative expenses decreased \$5.5 million in the first nine months of 2012 compared to the same period of 2011. The decrease is due primarily due to an \$18.1 million charge for a court ruling, partially offset by a benefit of \$2.4 million for a settlement related to a prior acquisition which were both recorded in the second quarter of 2011. Increases include \$10.8 million of expenses from acquisitions, and \$4.3 million of incentive and non-cash compensation. Engineering expense increased by \$3.1 million in the first nine months of 2012 compared to the same period of 2011 as the company focused engineering resources on product development. Costs related to engineering for specific customer contracts are included in cost of sales. Amortization expense decreased slightly in the first nine months of 2012 compared to the same period in 2011 due to amortization of intangibles in 2011 associated with acquisitions. Total operating expenses were 12.5% and 15.7% of sales for the first nine months of 2012 and 2011, respectively.

The following table shows our segment operating expenses:

| <i>In thousands</i> | Nine months ended September 30, | | |
|--------------------------|---------------------------------|------------|----------------|
| | 2012 | 2011 | Percent Change |
| Freight Segment | \$ 118,661 | \$ 107,220 | 10.7% |
| Transit Segment | 91,758 | 84,212 | 9.0% |
| Corporate | 11,851 | 33,466 | (64.6)% |
| Total operating expenses | \$ 222,270 | \$ 224,898 | (1.2)% |

Segment operating expenses consist of specific segment costs such as, sales and marketing, information technology, insurance, and audit and tax fees, allocated corporate costs, and other segment specific discrete charges. Corporate costs are allocated to the freight and transit segments based on segment revenues. Certain corporate departmental expenses are not allocated.

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Freight segment operating expenses increased \$11.4 million in the first nine months of 2012 compared to the same period of 2011 because of \$5.6 million of expenses from acquisitions, an increase of \$3.4 million in expenses allocated to the operating segments and an increase in selling, general and administrative expense supporting higher sales volume. Freight segment operating expenses were 10.1% and 12.3% of sales for the first nine months of 2012 and 2011, respectively.

Transit segment operating expenses increased \$7.5 million in the first nine months of 2012 compared to the same period of 2011 because of \$5.2 million of expenses from acquisitions and a benefit of \$2.4 million for a settlement related to a prior acquisition which was recorded in the second quarter of 2011, an increase of \$0.3 million in the expenses allocated to the operating segments, partially offset by a decrease in other selling, general and administrative expenses from cost saving initiatives. Transit segment operating expenses were 14.7% and 14.6% of sales for the first nine months of 2012 and 2011, respectively.

Corporate non-allocated operating expenses decreased \$21.6 million in the first nine months of 2012 compared to the same period of 2011 because of the charge for a court ruling discussed above and decreases in other non-allocated departmental expenses.

Income from operations Income from operations totaled \$291.8 million or 16.4% of sales in the first nine months of 2012 compared to \$198.2 million or 13.8% of sales in the same period of 2011. Income from operations increased due to higher sales volume and decreased operating expenses discussed above.

Interest expense, net Overall interest expense, net, was comparable to the prior period.

Other income (expense), net The Company recorded foreign exchange losses of \$0.4 million and \$2.1 million in the first nine months of 2012 and 2011, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

Income taxes The effective income tax rate was 33.3% and 33.2% for the first nine months of 2012 and 2011, respectively.

Net income Net income for the first nine months of 2012 increased \$63.1 million, compared with the same period of 2011. The increase in net income is due to higher sales volume and decreased operating expenses discussed above.

Liquidity and Capital Resources

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

| <i>In thousands</i> | Nine months ended September 30, | |
|------------------------------|------------------------------------|-------------|
| | 2012 | 2011 |
| Cash provided by (used for): | | |
| Operating activities | \$ 113,525 | \$ 100,020 |
| Investing activities | (126,067) | (73,663) |
| Financing activities | 9,294 | (33,864) |
| Decrease in cash | \$ (3,560) | \$ (15,805) |

Operating activities In the first nine months of 2012 and 2011, cash provided by operations was \$113.5 million and \$100.0 million, respectively. In comparison to the first nine months of 2011, cash provided by operations in 2012 resulted from higher net income and higher non-cash items, offset by a net increase in working capital. In 2012, accounts receivable increased by \$71.4 million, due to higher sales, and inventory increased by \$26.6 million from the prior year due to certain Transit Segment contracts and to support the higher

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sales volume. Accounts payable decreased by \$18.6 million due to timing of payments and accrued income taxes decreased by \$17.4 million due to payments. All other operating assets and liabilities, net, provided cash of \$15.9 million due primarily to an increase of \$30.3 million in customer deposits for certain contracts and the payment timing of certain accrued liabilities. In 2011, accounts receivable increased by \$80.3 million and inventory increased by \$63.4 million from the prior year. Accounts payable decreased by \$3.7 million. All other operating assets and liabilities, net, provided cash of \$72.2 million due primarily to the accrual of \$18.1 million for a court ruling, a \$44.3 million increase in customer deposits for certain contracts and the payment timing of certain accrued liabilities.

Investing activities In the first nine months of 2012 and 2011, cash used in investing activities was \$126.1 million and \$73.7 million, respectively. Net cash paid for acquisitions was \$102.3 million and \$51.8 million for the first nine months of 2012 and 2011, respectively. Refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for additional information on acquisitions. Capital expenditures were \$24.7 million and \$22.2 million in the first nine months of 2012 and 2011, respectively.

Financing activities In the first nine months of 2012, cash provided by financing activities was \$9.2 million, which included \$211.0 million in proceeds from debt and \$174.0 million of repayments of debt on the revolving credit facility, \$5.3 million of dividend payments and \$28.0 million for the repurchase of 376,300 shares of stock. In the first nine months of 2011, cash used in financing activities was \$33.9 million, which included \$124.0 million in proceeds from debt and \$110.0 million of repayments of debt on the revolving credit facility, \$29.9 million of debt repayments on the term loan and other debt, \$2.4 million of dividend payments and \$23.8 million for the repurchase of 403,600 shares of stock.

The following table shows outstanding indebtedness at September 30, 2012 and December 31, 2011.

| <i>In thousands</i> | September 30, 2012 | December 31, 2011 |
|-------------------------------|-------------------------------|------------------------------|
| 6.875% Senior Notes, due 2013 | \$ 150,000 | \$ 150,000 |
| Revolving Credit Facility | 282,000 | 245,000 |
| Capital Leases | 897 | 873 |
| Total | 432,897 | 395,873 |
| Less current portion | 43 | 68 |
| Long-term portion | \$ 432,854 | \$ 395,805 |

Cash balance at September 30, 2012 and December 31, 2011 was \$282.1 million and \$285.6 million, respectively.

2011 Refinancing Credit Agreement

On November 7, 2011, the Company refinanced its existing revolving credit and term loan facility with a consortium of commercial banks. This 2011 Refinancing Credit Agreement provides the company with a \$600 million, five-year revolving credit facility. The Company incurred approximately \$2.0 million of deferred financing cost related to the 2011 Refinancing Credit Agreement. The facility expires on November 7, 2016.

Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for additional information regarding the 2011 Refinancing Credit Agreement.

6.875% Senior Notes Due August 2013

In August 2003, the Company issued \$150.0 million of Senior Notes due in 2013 (the Notes). The Notes were issued at par. Interest on the Notes accrues at a rate of 6.875% per annum and is payable semi-annually on January 31 and July 31 of each year. The proceeds were used to repay debt outstanding under the Company's existing credit agreement and for general corporate purposes. The principal balance is due in full at maturity. The Company has both the intent and ability to refinance the Notes, maturing August 2013, on a long term basis.

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utilizing capacity under the 2011 Refinancing Credit Agreement. The 2011 Refinancing Credit Agreement will provide available bank borrowing capacity sufficient to refinance the Notes on a long-term basis. The Notes are included in the long-term portion of debt as of September 30, 2012. The Company is in compliance with the restrictions and covenants in the indenture under which the Notes were issued and expects that these restrictions and covenants will not be any type of limiting factor in executing our operating activities. Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for additional information regarding the Notes.

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

Company Stock Repurchase Plan

On May 11, 2011, the Board of Directors increased its stock repurchase authorization to \$150 million of the Company's outstanding shares. Through September 30, 2012, repurchases are \$54.0 million, leaving \$96.0 million under the authorization. This share repurchase authorization supersedes the previous authorization of \$150 million of which \$39.4 million was remaining.

The Company intends to purchase shares on the open market or in negotiated or block trades. No time limit was set for the completion of the programs which conforms to the requirements under the 2011 Refinancing Credit Agreement, as well as the Notes currently outstanding.

During the first nine months of 2012, the Company repurchased 376,300 shares of its stock at an average price of \$74.40 per share. During 2011, the Company repurchased 438,600 shares of its stock at an average price of \$59.33 per share. All purchases were on the open market.

Contractual Obligations and Off-Balance Sheet Arrangements

As of September 30, 2012, the Company has recognized a total liability of \$9.7 million for unrecognized tax benefits related to uncertain tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of cash settlement for any of the unrecognized tax benefits due to the uncertainty of the timing and outcome of its audits and other factors.

Since December 31, 2011, there have been no other significant changes in the total amount of the Company's contractual obligations or the timing of cash flows in accordance with those obligations, as reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Forward Looking Statements

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

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

Economic and industry conditions

prolonged unfavorable economic and industry conditions in the markets served by us, including North America, South America, Europe, Australia, Asia and South Africa;

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decline in demand for freight cars, locomotives, passenger transit cars, buses and related products and services;

reliance on major original equipment manufacturer customers;

original equipment manufacturers' program delays;

demand for services in the freight and passenger rail industry;

demand for our products and services;

orders either being delayed, cancelled, not returning to historical levels, or reduced or any combination of the foregoing;

consolidations in the rail industry;

continued outsourcing by our customers; industry demand for faster and more efficient braking equipment;

fluctuations in interest rates and foreign currency exchange rates; or

availability of credit;

Operating factors

supply disruptions;

technical difficulties;

changes in operating conditions and costs;

increases in raw material costs;

successful introduction of new products;

performance under material long-term contracts;

labor relations;

completion and integration of acquisitions; or

the development and use of new technology;

Competitive factors

the actions of competitors;

Political/governmental factors

political stability in relevant areas of the world;

future regulation/deregulation of our customers and/or the rail industry;

levels of governmental funding on transit projects, including for some of our customers;

political developments and laws and regulations, including those related to Positive Train Control;

federal and state income tax legislation; or

the outcome of our existing or any future legal proceedings, including litigation involving our principal customers and any litigation with respect to environmental, asbestos-related matters and pension liabilities; and

Transaction or commercial factors

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

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Statements in this 10-Q apply only as of the date on which such statements are made, and we undertake no obligation to update any statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Reference is also made to the risk factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Critical Accounting Policies

A summary of critical accounting policies is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. In particular, judgment is used in areas such as accounts receivable and the allowance for doubtful accounts, inventories, goodwill and indefinite-lived intangibles, warranty reserves, pensions and postretirement benefits, income taxes and revenue recognition. There have been no significant changes in accounting policies since December 31, 2011.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

In the ordinary course of business, Wabtec is exposed to risks that increases in interest rates may adversely affect funding costs associated with its variable-rate debt. The Company's variable rate debt represents 40% and 35% of total long-term debt at September 30, 2012 and December 31, 2011, respectively. On an annual basis a 1% change in the interest rate for variable rate debt at September 30, 2012 would increase or decrease interest expense by about \$1.8 million. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swap agreements which effectively converted a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. Refer to "Financial Derivatives and Hedging Activities" in Note 2 of "Notes to Condensed Consolidated Financial Statements" for additional information regarding interest rate risk.

Foreign Currency Exchange Risk

The Company is subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. dollar. For the first nine months of 2012, approximately 50% of Wabtec's net sales were to customers in the United States, 10% in the United Kingdom, 9% in Australia, 8% in Canada, 6% in Mexico, 2% in Germany and 15% in other international locations. To reduce the impact of changes in currency exchange rates, the Company has periodically entered into foreign currency forward contracts. Refer to "Financial Derivatives and Hedging Activities" in Note 2 of "Notes to Condensed Consolidated Financial Statements" for more information regarding foreign currency exchange risk.

Item 4. CONTROLS AND PROCEDURES

Wabtec's principal executive officer and its principal financial officer have evaluated the effectiveness of Wabtec's disclosure controls and procedures, (as defined in Exchange Act Rule 13a-15(e)) as of September 30, 2012. Based upon their evaluation, the principal executive officer and principal financial officer concluded that Wabtec's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by Wabtec in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by Wabtec in such reports is accumulated and communicated to Wabtec's Management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in Wabtec's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, Wabtec's internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

There have been no material changes regarding the Company's commitments and contingencies as described in Note 18 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Item 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

On May 11, 2011, the Board of Directors increased its stock repurchase authorization to \$150 million of the Company's outstanding shares. Through September 30, 2012 repurchases are \$54.0 million, leaving \$96.0 million under the authorization. This share repurchase authorization supersedes the previous authorization of \$150 million, of which \$39.4 million was remaining.

The Company intends to purchase shares on the open market or in negotiated or block trades. No time limit was set for the completion of the programs which conforms to the requirements under the 2011 Refinancing Credit Agreement, as well as the Notes currently outstanding.

During the first nine months of 2012, the Company repurchased 376,300 shares of its stock at an average price of \$74.40 per share. All purchases were on the open market.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Number of Shares Purchased for Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased |
|---------------------------------------|---|---|---|---|
| July 1, 2012 to July 28, 2012 | | | | \$ 102,050,526 |
| July 29, 2012 to August 25, 2012 | 10,000 | 78.22 | 10,000 | 101,268,318 |
| August 26, 2012 to September 29, 2012 | 67,500 | 78.34 | 67,500 | 95,980,608 |
| Total | 77,500 | \$ 78.32 | 77,500 | \$ 95,980,608 |

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

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Item 6. EXHIBITS

The following exhibits are being filed with this report:

| | |
|----------|--|
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer. |
| 32.1 | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. |
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document. |

* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

WESTINGHOUSE AIR BRAKE

TECHNOLOGIES CORPORATION

By: */s/* ALVARO GARCIA-TUNON
Alvaro Garcia-Tunon,
Executive Vice President,
Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

DATE: November 2, 2012

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EXHIBIT INDEX

| | |
|----------|--|
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer. |
| 32.1 | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. |
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document. |

* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.