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

FORM 10-K

☒ **Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2004

OR

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

For the transition period from to

Commission file number 1-13782

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☑ No ☐

The registrant estimates that as of June 30, 2004, the aggregate market value of the voting shares held by non-affiliates of the registrant was approximately $723.8 million based on the closing price on the New York Stock Exchange for such stock.

As of March 10, 2005, shares of Common Stock of the registrant were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the registrant's Annual Meeting of Stockholders to be held on May 18, 2005 are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. BUSINESS

General

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

Wabtec is one of the world's largest providers of value-added, technology-based equipment and services for the global rail industry. We believe we hold about a 50% market share in North America for our primary braking-related equipment and a number 1 or number 2 position in North America for most of our other product lines. Our highly engineered products, which are intended to enhance safety, improve productivity and reduce maintenance costs for customers, can be found on virtually all U.S. locomotives, freight cars and passenger transit vehicles. In 2004, the Company had sales of $822 million and net income of $32.4 million. Sales of aftermarket parts and services represented about 54% of total sales in 2004.

Management and insiders of the Company own approximately 8% of Wabtec's outstanding shares, with the balance held by investment companies and individuals. Executive management incentive compensation focuses on earnings, cash flow, working capital and economic profit targets to align management interests with those of outside shareholders.

Industry Overview

The Company primarily serves the worldwide freight and passenger transit rail industries. The worldwide market for rail equipment has been estimated at about $70 billion annually, and it is estimated to grow at about 4% annually for the next five years. Our operating results are largely dependent on the level of activity, financial condition and capital spending plans of the global railroad industry. Many factors influence the industry, including general economic conditions; rail traffic, as measured by freight tonnage and passenger ridership; government investment in public transportation; and investment in new technologies by freight and passenger rail systems. Customers outside North America account for about 22% of Wabtec's sales.

In North America, railroads carry about 42% of intercity freight, as measured by ton-miles, which is more than any other mode of transportation. They are an integral part of the continent's economy and transportation system, serving nearly every industrial, wholesale and retail sector. Through direct ownership and operating partnerships, U.S. railroads are part of an integrated network that includes railroads in Canada and Mexico, forming what is regarded as the world's most-efficient and lowest-cost freight rail service. There are more than 500 railroads operating in North America, with the largest railroads, referred to as "Class I," accounting for more than 90% of the industry's revenues. Although the railroads carry a wide variety of commodities, coal accounts for the most tons and revenues (about 44% and about 20%, respectively, in 2004). Intermodal traffic—the movement of trailers or containers by rail in combination with another mode of transportation—has been the railroads' fastest-growing market segment in the past 10 years. Railroads operate in a competitive environment, especially with the trucking industry, and are always seeking ways to improve safety, cost and reliability. New technologies offered by Wabtec and others in the industry can provide some of these benefits.

Outside of North America, many of the rail systems have historically been focused on passenger transit, rather than freight. In recent years, however, railroads in countries such as Australia, India and China have been

investing capital to expand and improve both their freight and passenger rail systems. Throughout the world, government-owned railroads are being sold to private owners, who often look to improve the efficiency of the rail system by investing in new equipment and new technologies. These investment programs represent additional opportunities for Wabtec to provide products and services.

In the U.S., passenger transit is a $32 billion industry, dependent largely on funding from federal, state and local governments, and from fare box revenues. With about 40% of the nation's passenger transit vehicles, New York City is the largest passenger transit market in the U.S. Passenger transit ridership is near an all-time high, after increasing throughout the 1990s due to steady growth in the U.S. economy. Based on preliminary figures for 2004, ridership is expected to be about the same as in 2003. In response to lower fare box revenues and government funding cutbacks, transit authorities have delayed capital expenditures for new equipment and deferred maintenance on existing equipment. New York City, however, has continued to invest in new equipment, as demonstrated by its order for up to 1,700 new subway vehicles, including options, which are expected to be delivered beginning in 2006.

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

- *Rail traffic.* The Association of American Railroads (AAR) compiles statistics that gauge the level of activity in the freight rail industry. Two important statistics are revenue ton-miles and carloadings, which are generally referred to as "rail traffic". According to preliminary AAR estimates for U.S. railroads, 2004 was a record year, with revenue ton-miles increasing about 4.9%, carloadings increasing about 2.9% and intermodal units increasing about 10.4%. As rail traffic increases, we believe that our customers will increase their level of spending on equipment and equipment maintenance.
- *Demand for new locomotives.* Currently, the active locomotive fleet in the North American market is about 20,000 units. The average number of new locomotives delivered over the past 10 years was about 1,000 annually. In 2004, about 1,200 new, heavy-haul locomotives were delivered, up from about 750 in 2003. In 2005, we expect the industry to deliver about 1,100 new locomotives.
- *Demand for new freight cars*. Currently, the active freight car fleet in North America is about 1.3 million units. The average number of new freight cars delivered over the past 10 years was about 50,000 annually. In 2004, about 46,300 new freight cars were delivered and about 70,000 new freight cars were ordered. We expect that about 55,000 new units will be delivered in 2005.

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

- *Replacement, building and/or expansion programs of transit authorities.* These programs are funded in part by national and local government programs. In 2005, the U.S. federal government is expected to renew legislation that provides federal funding for transportation projects. The previous legislation expired in 2004, but the government continued to provide funding at 2004 levels in the interim. The amount of funding in the legislation will have an impact on the capital spending plans of transit authorities. In recent years, U.S. federal funding for passenger transit projects has generally served as a countercyclical balance during the downturn in our freight rail markets. The average annual number of new transit car deliveries over the past 10 years was about 600 units. In 2004, we estimate that about 800 transit vehicles were delivered, about the same as in 2003. In 2005, we estimate that about 725 units will be delivered, with about 950 units estimated for 2006. The expected increase in 2006 is due to the delivery of cars to New York City, which has placed an order for 1,700 cars, including options. As a result of this order, Wabtec management expects the annual transit vehicle delivery rate to be in the range of 900 to 1,200 units through 2009.
- *Ridership levels*. Ridership on U.S. transit vehicles increased steadily from 1995 through 2001. In 2002, ridership decreased for the first time since 1995 due to higher unemployment levels in the U.S. The lower ridership level, as well as government funding cutbacks, negatively impacted aftermarket spending in 2002 and 2003. In 2004, ridership was about the same as in 2003, and the company's revenues from aftermarket products and services increased significantly.

Business Segments and Products

We provide our products and services through two principal business segments, the Freight Group and the Passenger Transit Group (hereafter referred to as "Transit Group"). The Freight Group manufactures and services components for new and existing freight cars and locomotives, while the Transit Group does the same for passenger transit vehicles, typically subways and buses. Both business segments serve original equipment manufacturers (OEMs) and provide aftermarket sales and services with the aftermarket accounting for about 54% of net sales. In 2004, the Freight Group accounted for 71% of our total net sales, and the Transit Group accounted for the remaining 29%. In 2004, the Freight Group generated 58% of its net sales from the aftermarket and 42% of its net sales from the OEMs and Class I railroads. The Transit Group generated 42% of its net sales from the aftermarket and 58% of its net sales from OEMs. A summary of our leading product lines across both of our business segments is outlined below.

- Brakes and related components
- Brake assemblies
- Draft gears, couplers and slack adjusters
- Air compressors and dryers
- Railway electronics, including event recorders, control and monitoring equipment, and end of train devices
- Friction products
- Rail and bus door assemblies
- Heat exchangers and cooling systems
- Sanitation systems and locomotive refrigerators
- Switcher and commuter locomotives
- Heating, ventilation and air conditioning systems

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

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

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

Competitive Strengths

Our key strengths include:

- *Leading market positions in core products*. Dating back to 1869 and George Westinghouse's invention of the air brake, we are an established leader in the development and manufacture of pneumatic braking equipment for freight and passenger transit vehicles. We have leveraged our leading position by focusing on research and engineering to expand beyond pneumatic braking components to supplying integrated parts and assemblies for the whole locomotive through the end-of-train. We are a recognized leader in the development and production of electronic recording, measuring and communications systems, highly engineered compressors and heat exchange systems for locomotives and a leading manufacturer of freight car components, including electronic braking equipment, draft gears, brake shoes and electronic end-of-train devices. Additionally, we are a leading provider of complete door assemblies and couplers for passenger and transit vehicles.
- *Breadth of product offering with a stable mix of OEM and aftermarket business*. We believe that our substantial installed base of products to the OEMs is a significant competitive advantage for providing products and services to the aftermarket because end-users often look to purchase safety and performance-related replacement parts from the original supplier. In addition, we believe our product portfolio is one of the broadest in the rail industry, as we offer a wide selection of quality parts, components and assemblies across the entire train. Over the last several years, approximately 55% of our total net sales have come from our aftermarket products and services business.
- *Leading design and engineering capabilities*. We believe a hallmark of our relationship with our customers has been our leading design and engineering practice, which has, in our opinion, assisted in the improvement and modernization of global railway equipment. We believe both our customers and the federal transit authorities value our technological capabilities and commitment to innovation, as we seek not only to enhance the efficiency and profitability of our customers, but also to improve the overall safety of the railways through continuous product improvement.
- *Significant barriers to entry*. We believe that there are a number of company- and industry-specific factors that represent meaningful barriers to entry:
  - *Proprietary product offering*. We have an established record of product improvements and new product development. We have assembled a wide range of patented products, which we believe provides us with a competitive advantage. We currently own over 1,000 active patents worldwide and 500 U.S. patents. During the last three years, we have filed for more than 150 U.S. patents in support of our new and evolving product lines.
  - *Substantial installed base.* We believe our installed base presents a meaningful barrier to entry in both the new product market and the aftermarket. As OEMs and Class I railroad operators attempt to modernize fleets with new products designed to improve and maintain safety and efficiency, new products must be designed to be interoperable with existing equipment. We believe our dedicated research and development staff and comprehensive product offering enables us to leverage our installed base to maintain our leadership position with OEMs and the Class I railroads. Similarly, we believe our substantial installed base makes us a preferred supplier in the aftermarket, as end-users typically prefer to source performance and safety-related replacement parts and service from the original product supplier.
  - *Regulatory nature of the rail industry.* Oversight of the U.S. rail industry is governed by a number of federal regulatory agencies, including the National Transportation Safety Board (NTSB), the Federal Railroad Administration (FRA) and the AAR. These groups mandate rigorous manufacturer certification and new product testing and approval processes that we believe are difficult for new entrants to meet cost-effectively and efficiently without the scale and extensive experience we possess.

- *Experienced management team*. Our management team has over 100 years of combined experience with the Company. The team implemented numerous initiatives that enabled us to manage the sharp cyclical downturn in the rail supply market in 2001 and 2002, including the Wabtec Quality and Performance System (QPS), an ongoing program that focuses on “lean manufacturing” principles and continuous improvement across all aspects of our business. Since 2000, the company has reduced our debt, net of cash, by approximately $500 million, lowering our percentage of net debt to book capitalization from 73% at December 31, 2000 to 15% at December 31, 2004. As a result of these initiatives, our management team has improved our cost structure, operating leverage and financial flexibility and placed us in an excellent position to benefit from growth opportunities in an improving market environment.

Business strategy

We are focused on executing the following four-point growth strategy:

- *Expand aftermarket sales*. Historically, aftermarket sales are less cyclical than OEM sales because a certain level of aftermarket maintenance and service work must be performed, even during an industry slowdown. Wabtec provides aftermarket parts and services for its components, but the company is seeking to expand this business with new customers such as short-line and regional railroads, or with customers who currently perform the work in-house. In this way, we expect to take advantage of the rail industry trend toward outsourcing, as railroads and transit authorities focus on their core function of transporting goods and people, rather than maintaining and servicing their equipment.
- *Accelerate new product development*. During the recent industry downturn, we maintained research and development spending at historical levels and continued to fund major development projects, and we will continue to emphasize research and development to create new and improved products. We are focusing on technological advances, especially in the areas of electronics, braking products and other on-board equipment, as a means of new product growth. We seek to provide customers with incremental technological advances that offer immediate benefits with cost effective investments.
- *Expand globally*. Our net sales outside of North America totaled 22% in 2004, up from 21% in 2003, and we believe that international markets represent a significant opportunity for future growth. We intend to increase our existing international sales through strategic acquisitions, direct sales of products through our existing subsidiaries and licensees and joint ventures with railway suppliers having a strong presence in their local markets. We are specifically targeting markets that operate significant fleets of U.S.-style locomotives and freight cars, including Australia, China, India, Russia, South Africa, South America and select areas within Europe.
- *Continuous improvement through lean principles*. We intend to build on what we consider to be a leading position as a low-cost producer in the industry while maintaining world-class product quality, technology and customer responsiveness. Through QPS and employee-directed initiatives such as Kaizen, a Japanese-developed team concept, we continuously strive to improve quality, delivery and productivity, and to reduce costs. These efforts enable us to streamline processes, improve product quality and customer satisfaction, reduce product cycle times and respond more rapidly to market developments. Over time, we expect these lean initiatives to enable us to increase profit margins, which would improve cash flow and strengthen our ability to invest in new product and service programs.

Backlog

In 2004, 54% of our sales came from aftermarket orders. Aftermarket orders typically carry lead times of less than 30 days, so they are not recorded in backlog for a significant period of time. As such, the Company’s backlog is primarily an indicator of future original equipment sales, not expected aftermarket activity.

The Company’s contracts are subject to standard industry cancellation provisions, including cancellations on short notice or upon completion of designated stages. Substantial scope-of-work adjustments are common. For

these and other reasons, completion of the Company's backlog may be delayed or cancelled, so backlog should not be relied upon as an indicator of the Company's future performance. The railroad industry, in general, has historically been subject to fluctuations due to overall economic conditions and the level of use of alternative modes of transportation.

The backlog of customer orders as of December 31, 2004, and December 31, 2003, and the expected year of completion are as follows.

In thousands	Total Backlog 12/31/04	Expected Delivery 2005	Expected Delivery Other Years	Total Backlog 12/31/03	Expected Delivery 2004	Expected Delivery Other Years
Freight Group	$ 292,004	$ 233,278	$ 58,726	$ 177,963	$ 111,545	$ 66,418
Transit Group	281,955	142,663	139,292	284,006	151,116	132,890
Total	$ 573,959	$ 375,941	$ 198,018	$ 461,969	$ 262,661	$ 199,308

Engineering and Development

To execute our strategy to develop new products, we invest in a variety of engineering and development activities. For the fiscal years ended December 31, 2004, 2003, and 2002, we invested about $33.8 million, $32.9 million and $33.6 million, respectively, on product development and improvement activities. Approximately 40% of these costs comprise activities solely devoted to new product development in any given year. These engineering and development expenditures, in total, represent about 4.1%, 4.6% and 4.8% of net sales for the same periods, respectively. Sometimes we conduct specific research projects in conjunction with universities, customers and other railroad product suppliers.

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

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

Intellectual Property

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

Certain trademarks, among them the name WABCO®, were acquired or licensed from American Standard Inc. in 1990 at the time of our acquisition of the North American operations of the Railway Products Group of American Standard.

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

We entered into a license agreement with Faiveley Transport (formerly SAB WABCO Holdings B.V.) on December 31, 1993, pursuant to which Faiveley Transport granted us a license to the intellectual property and know-how related to the manufacturing and marketing of certain disc brakes, tread brakes and low noise and

resilient wheel products. SAB WABCO Holdings B.V. was a former affiliate of Wabtec, since both were owned by the same parent company in the early 1990s. The Faiveley Transport license expired December 31, 2004, but has been renewed for an additional one-year term as provided in the license agreement. The license may be renewed for additional one-year terms.

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

Customers

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

In 2004, about 78% of our sales were to customers in North America, but we also shipped products to more than 82 countries throughout the world. About 54% of our sales were in the aftermarket, with the rest of our sales to OEMs of locomotives, freight cars, subway vehicles and buses.

Our top five customers, General Electric Transportation Systems, Bombardier, Burlington Northern Santa Fe, Electro-Motive Division of General Motors and Amtrak accounted for 26% of our net sales in 2004. No one customer represents 10% or more of consolidated sales. We believe that we have strong relationships with all of our key customers.

Competition

We believe that we hold about a 50% market share in North America for our primary braking-related equipment and a No. 1 or No. 2 market position in North America for most of our other product lines. Nonetheless, we operate in a highly competitive marketplace. Price competition is strong because we have a relatively small number of customers and they are very cost-conscious.

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

Employees

At December 31, 2004, we had 4,905 full-time employees, approximately 39% of whom were unionized. A majority of the employees subject to collective bargaining agreements are within North America and these agreements generally extend through late 2005, 2006, 2007 and 2009.

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

Regulation

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

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

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

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

Effects of Seasonality

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

Environmental Matters

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

Available Information

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

Item 2. PROPERTIES

Facilities

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

Location	Primary Use	Segment	Own/Lease	Approximate Square Feet
Domestic				
Wilmerding, PA	Manufacturing/Service	Freight Group	Own	365,000(1)
Boise, ID	Manufacturing	Freight Group	Own	294,700
Lexington, TN	Manufacturing	Freight Group	Own	170,000
Jackson, TN	Manufacturing	Freight Group	Own	150,000
Chicago, IL	Manufacturing	Freight Group	Own	111,500
Laurinburg, NC	Manufacturing	Freight Group	Own	105,000
Greensburg, PA	Manufacturing	Freight Group	Own	97,800
Germantown, MD	Manufacturing/Service	Freight Group	Own	80,000
Willits, CA	Manufacturing	Freight Group	Own	70,000
Kansas City, MO	Service Center	Freight Group	Lease	55,900
Columbia, SC	Service Center	Freight Group	Lease	40,250
Cedar Rapids, IA	Manufacturing	Freight Group	Lease	37,000
Racine, WI	Engineering/Office	Freight Group	Lease	32,500
Carson City, NV	Service Center	Freight Group	Lease	22,000
Harvey, IL	Service Center	Freight Group	Lease	19,200
Boulder, CO	Engineering/Admin	Freight Group	Lease	3,400
Spartanburg, SC	Manufacturing/Service	Transit Group	Lease	183,600
Buffalo Grove, IL	Manufacturing	Transit Group	Lease	115,570
Plattsburgh, NY	Manufacturing	Transit Group	Lease	64,000
Elmsford, NY	Service Center	Transit Group	Lease	28,000
Baltimore, MD	Service Center	Transit Group	Lease	7,200
Richmond, CA	Service Center	Transit Group	Lease	5,400
Sun Valley, CA	Service Center	Transit Group	Lease	4,000
Atlanta, GA	Sales Office	Transit Group	Lease	1,200
Glastonbury, CT	Engineering/Admin	Corporate	Lease	2,600
Mountaintop, PA	Vacant Land Available for Sale		Own	105 Acres
International				
Doncaster, UK	Manufacturing/Service	Freight Group	Own	330,000
Stoney Creek (Ontario), Canada	Manufacturing/Service	Freight Group	Own	189,200
Wallaceburg (Ontario), Canada	Foundry	Freight Group	Own	127,600
San Luis Potosi, Mexico	Manufacturing	Freight Group	Own	48,600
San Luis Potosi, Mexico	Foundry	Freight Group	Own	24,500
Wetherill Park, Australia	Manufacturing	Freight Group	Lease	73,100
Kolkata, India	Manufacturing	Freight Group	Lease	32,000
Tottenham, Australia	Manufacturing	Freight Group	Lease	26,900
Schweighouse, France	Manufacturing	Freight Group	Lease	19,000
Calgary (Alberta), Canada	Service	Freight Group	Lease	14,400
Sydney, Australia	Sales Office	Freight Group	Lease	11,250
St. Laurent (Quebec), Canada	Manufacturing	Transit Group	Own	106,000
Jiangsu, China	Manufacturing	Transit Group	Own	80,000
Sassuolo, Italy	Manufacturing	Transit Group	Lease	30,000
Pointe-aux-Trembles (Quebec), Canada	Manufacturing	Transit Group	Lease	20,000
Burton on Trent, UK	Manufacturing	Transit Group	Lease	18,000

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

Item 3. LEGAL PROCEEDINGS

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

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

None.

EXECUTIVE OFFICERS

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

NAME	Age	Position
William E. Kassling	61	Chairman of the Board, President and Chief Executive Officer
Alvaro Garcia-Tunon	52	Senior Vice President, Chief Financial Officer and Secretary
Anthony J. Carpani	52	Vice President, Group Executive, Friction
Patrick D. Dugan	38	Vice President and Controller
Timothy J. Logan	51	Vice President, International
James E. McClaine	63	Vice President, Railroad Service
Barry L. Pennypacker	44	Vice President, Performance First
Gary P. Prasser	47	Vice President, Group Executive, Transit
George A. Socher	56	Vice President, Internal Audit and Taxation
Scott E. Wahlstrom	41	Vice President, Human Resources
Timothy R. Wesley	43	Vice President, Investor Relations and Corporate Communications

William E. Kassling has been a director and Chairman of the Board of Directors since 1990 and served as Chief Executive Officer until February 2001. He was named President and Chief Executive Officer of the Company again in May 2004. Mr. Kassling was also President of the Company from 1990 through February 1998. From 1984 until 1990 he headed the Railway Products Group of American Standard Inc. Between 1980 and 1984 he headed American Standard's Building Specialties Group, and between 1978 and 1980 he headed Business Planning for American Standard. Mr. Kassling is a director of Scientific-Atlanta, Inc. and Parker Hannifin Corporation.

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

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

Patrick D. Dugan joined Wabtec as Vice President, Corporate Controller in November 2003. Prior to joining Wabtec, Mr. Dugan served as Vice President and Chief Financial Officer of CWI International, Inc. from December 1996 to November 2003. Prior to 1996, he worked for PricewaterhouseCoopers providing business assurance and advisory services.

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

James E. McClaine joined Wabtec with the Pulse Electronics acquisition in 1995 and became President of Wabtec's Railway Electronics division. Mr. McClaine now serves as Vice President of Railroad Service.

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

Gary P. Prasser has served as Vice President, Group Executive, Transit since September 2003. From October 2001 to September 2003, he served as President of the Company's Cardwell Westinghouse business unit and Vice President, Manufacturing of the Company's Freight Group. He joined Wabtec in August 1999 and served as President of the Company's Motor Coils subsidiary from November 1999 to October 2001. From January 1996 to July 1999, Mr. Prasser was President of Joslyn Manufacturing, a subsidiary of Danaher Corporation.

George A. Socher has been Vice President, Internal Audit and Taxation, of the Company since November 1999. From July 1995 until November 1999, Mr. Socher was Vice President and Corporate Controller of the Company.

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

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

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER REPURCHASES OF COMMON STOCK

The Common Stock of the Company is listed on the New York Stock Exchange. As of March 10, 2005, there were 46,260,407 shares of Common Stock outstanding held by 948 holders of record. The high and low sales price of the shares and dividends declared per share were as follows:

2004	High	Low	Dividends
First Quarter	$17.44	$13.72	$ 0.01
Second Quarter	$18.40	$13.61	$ 0.01
Third Quarter	$19.19	$16.55	$ 0.01
Fourth Quarter	$22.70	$18.32	$ 0.01

2003	High	Low	Dividends
First Quarter	$14.28	$10.16	$ 0.01
Second Quarter	$14.97	$11.15	$ 0.01
Third Quarter	$16.83	$13.30	$ 0.01
Fourth Quarter	$18.44	$14.44	$ 0.01

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

At the close of business on March 10, 2005, the Company's Common Stock traded at $18.87 per share.

During the year ended December 31, 2004, there were no repurchases made by us or on our behalf or any "affiliated purchaser" of shares of our common stock registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.

Item 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
In thousands, except per share amounts	2004	2003	2002	2001	2000
Income Statement Data					
Net sales	$ 822,018	$ 717,924	$ 696,195	$ 783,698	$ 811,178
Gross profit	205,164	189,450	179,471	209,926	235,662
Operating expenses (1)	(149,759)	(139,636)	(132,741)	(152,145)	(139,669)
Merger and restructuring charge	—	—	—	(3,723)	(18,202)
Income from operations	$ 55,405	$ 49,814	$ 46,730	$ 54,058	$ 77,791
Interest expense, net	$ (11,528)	$ (11,118)	$ (19,135)	$ (33,501)	$ (43,649)
Other (expense) income, net	(1,020)	(3,654)	(3,691)	(2,130)	3,776
Income from continuing operations before cumulative effect of accounting change	32,096	22,252	16,310	13,962	19,200
Income from discontinued operations (net of tax)	349	451	403	6,360	6,193
(Loss) gain on sale of discontinued operations (net of tax) (2)	—	—	(529)	41,458	—
Income before cumulative effect of accounting change	32,445	22,703	16,184	61,780	25,393
Net income (loss) (3)	$ 32,445	$ 22,703	$ (45,479)	$ 61,780	$ 25,393
Diluted Earnings per Common Share					
Income from continuing operations before cumulative effect of accounting change	$ 0.70	$ 0.51	$ 0.37	$ 0.32	$ 0.45
Net income (loss) (3)	$ 0.71	$ 0.52	$ (1.04)	$ 1.43	$ 0.59
Cash dividends declared per share	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$ 0.04

	As of December 31				
	2004	2003	2002	2001	2000
Balance Sheet Data					
Total assets	$ 713,396	$ 656,305	$ 588,865	$ 729,952	$ 984,047
Cash	95,257	70,328	19,210	53,949	6,071
Total debt	150,107	190,225	195,151	241,870	540,197
Shareholders' equity	312,426	248,293	199,262	245,271	196,371

(1) In 2004, includes $3.2 million charge for a litigation ruling.

(2) In 2001, includes gain on sales of certain assets to GE Transportation Systems of $48.7 million and asset write-downs of other businesses that Wabtec decided to exit of $7.2 million.

(3) Includes the items noted above, as well as the following: A tax benefit of $4.9 million and $2.7 million was recorded in 2004 and 2003, respectively, primarily related to the reversal of certain items that had previously been provided for that were closed from further regulatory examination, and in 2002, a $61.7 million, net of tax, cumulative effect of accounting change for goodwill.

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

OVERVIEW

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all locomotives, freight cars and passenger transit vehicles in the U.S., as well as in certain markets throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles.

Wabtec is a global company with operations in nine countries. In 2004, about 78 percent of the Company's revenues came from its North American operations, but Wabtec also sold products or services in 82 countries around the world.

Management Review of 2004 and Future Outlook

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

In 2004, we achieved the following:

- Generated cash of $65 million, more than twice net income of $32.4 million;
- Reduced debt, net of cash, by $65 million;
- Revenues increased 14.5%, as the company generated increases in both aftermarket and OEM sales, as well as international sales;
- Product quality, as measured by first-time pass rate, improved by 3%;
- Productivity increased 6%.

We achieved these results despite higher raw material costs, especially steel and copper, and despite the negative impact of foreign currency exchange rates, especially on the Company's Canadian operations.

Freight rail industry statistics, such as carloadings and orders for new freight cars, improved in 2004. For example, carloadings grew 2.9% compared to 2003, as the freight railroads benefited from the strengthening economy in the U.S. As shown below, orders for new freight cars increased to 70,291 in 2004. As a result, the backlog of freight cars ordered was 58,677, its highest year-end level since 1998. Sales in our freight segment have demonstrated that trend. The following are quarterly freight car statistics for the past three years:

	Orders	Deliveries	Backlog
First quarter 2002	2,637	3,855	24,055
Second quarter 2002	6,973	4,155	9,281
Third quarter 2002	10,135	4,925	14,491
Fourth quarter 2002	8,712	4,801	18,402
	28,457	17,736	
First quarter 2003	11,767	6,614	24,055
Second quarter 2003	16,693	7,365	33,383
Third quarter 2003	6,726	8,251	31,858
Fourth quarter 2003	12,063	9,170	33,967
	47,249	31,400	

	Orders	Deliveries	Backlog
First quarter 2004	17,962	10,012	42,242
Second quarter 2004	19,770	10,071	51,446
Third quarter 2004	20,315	11,790	61,052
Fourth quarter 2004	12,244	14,419	58,677
	70,291	46,292	

Source: Railway Supply Institute

The following is a summary of freight car, locomotive and transit car deliveries for the industry:

	Actual		Forecast
	2003	2004	2005
Freight car	31,400	46,292	55,000
Transit	811	819	725
Locomotive	759	1,235	1,100

Based on company estimates

Management is forecasting a slight increase in deliveries of freight and transit cars.

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

Carloadings Originated (in thousands):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2004	4,298	4,422	4,363	4,340	17,423
2003	4,167	4,219	4,249	4,579	17,214
2002	4,086	4,280	4,304	4,527	17,197

Intermodal Units Originated (in thousands):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2004	2,585	2,750	2,810	2,849	10,994
2003	2,409	2,457	2,489	2,728	10,083
2002	2,157	2,383	2,462	2,437	9,439

Source: Association of American Railroads—Weekly Rail Traffic

In 2005, we expect demand to improve due to continued strength in the freight rail and passenger transit aftermarket, as well as growth in the market for new freight cars. Looking beyond 2005, we expect to generate increases in sales and earnings from executing our four-point growth strategy (see page 5 for more details):

- Expand aftermarket sales;
- Accelerate new product development;
- Expand globally;
- Continuous improvement through lean principles.

In 2005 and beyond, we will continue to face many challenges, including increased costs for raw materials, especially steel; higher costs for medical and insurance premiums; and foreign currency fluctuations. In addition,

we face general economic risks, as well as the risk that our customers could curtail spending on new and existing equipment. Risks associated with our four-point growth strategy include the level of investment that customers are willing to make in new technologies developed by the industry and the Company, and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and risks.

RESULTS OF OPERATIONS

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

In millions	Year Ended December 31, 2004	2003	2002
Net sales	$ 822.0	$ 717.9	$ 696.2
Cost of sales	(616.9)	(528.5)	(516.7)
Gross profit	205.1	189.4	179.5
Selling, general and administrative expenses	(112.6)	(102.4)	(93.8)
Engineering expenses	(33.8)	(32.9)	(33.6)
Amortization expense	(3.3)	(4.3)	(5.3)
Total operating expenses	(149.7)	(139.6)	(132.7)
Income from operations	55.4	49.8	46.8
Interest expense, net	(11.5)	(11.1)	(19.2)
Other expense, net	(1.0)	(3.7)	(3.7)
Income from continuing operations before income taxes and cumulative effect of accounting change	42.9	35.0	23.9
Income tax expense	(10.8)	(12.8)	(7.6)
Income from continuing operations before cumulative effect of accounting change	32.1	22.2	16.3
Discontinued operations			
Income from discontinued operations (net of tax)	0.3	0.5	0.4
(Loss) gain on sale of discontinued operations (net of tax)	—	—	(0.5)
Income before cumulative effect of accounting change	32.4	22.7	16.2
Cumulative effect of accounting change for goodwill, net of tax	—	—	(61.7)
Net income (loss)	$ 32.4	$ 22.7	$ (45.5)

2004 COMPARED TO 2003

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

In thousands	For the year ended December 31, 2004	2003	Percent Change
Net sales	$822,018	$717,924	14.5%
Income from operations	55,405	49,814	11.2%
Net income	32,445	22,703	42.9%

Net sales increased by 14.5% from $717.9 million in 2003 to $822 million in 2004, primarily as a result of volume increases in freight car, locomotive and transit car deliveries. Aftermarket part sales increased because of

carloadings and intermodal units originated. The Company did not realize any significant net sales improvement because of price increases or foreign exchange. Net income for 2004 was $32.4 million, or $0.71 per diluted share. Net income for 2003 was $22.7 million, or $0.52 per diluted share. This increase in net income was primarily due to increased sales and a favorable tax benefit.

The following table shows the Company's net sales by business segment:

In thousands	For the year ended December 31, 2004	2003
Freight Group	$ 587,685	$ 522,279
Transit Group	234,333	195,645
Net sales	$ 822,018	$ 717,924

Net sales. Net sales for 2004 increased $104.1 million, or 14.5%, as compared to 2003. Sales increased in both the Freight Group and the Transit Group. The Freight Group's increased sales reflected higher sales of certain components to international markets, higher demand for pneumatic air brake components related to increased delivery of freight cars and locomotives and greater demand for friction products due to overall increased rail traffic in 2004. Industry deliveries of new freight cars for 2004 increased to 46,292 units as compared to 31,400 in 2003. The Transit Group's increased sales were due to increased deliveries under existing contracts and higher aftermarket sales.

Gross profit. Gross profit increased to $205.2 million in 2004 compared to $189.5 million in 2003. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. Gross profit, as a percentage of sales, was 25% compared to 26.4% in 2003. The decrease in gross profit percentage is primarily due to increased manufacturing costs because of higher raw material prices, higher medical costs for retiree health plans and the negative impact of foreign exchange rates on the Company's Canadian operations. Other issues reducing gross profit percentage include inefficiencies relating to the closing and relocation of an electronics plant from Canada to the U.S., the establishment of a $970,000 reserve to reflect future environmental monitoring at our Boise facility, fixed asset impairment charges of $1.3 million, and the start up of low-margin rail door contracts in the Transit Group. Also, the provision for warranty expense negatively impacted gross profit having increased $4.4 million in 2004 compared to 2003. The provision for warranty expense is higher due to a combination of higher sales requiring additional reserves and charges for certain specific products. Although the warranty provision increased in 2004, warranty claims decreased resulting in an overall increase of $4.1 million in our warranty reserves. The Company is taking action to improve margins in future quarters, including price increases and ongoing initiatives to increase productivity and efficiency.

The following table shows our operating expenses:

In thousands	For the year ended December 31, 2004	2003	Percent Change
Selling, general and administrative expenses	$112,621	$102,398	10.0%
Engineering expenses	33,795	32,929	2.6%
Amortization expense	3,343	4,309	(22.4)%
Total operating expenses	$149,759	$139,636	7.2%

Operating expenses. Operating expenses increased $10.1 million in 2004 as compared to 2003 including a $3.2 million unfavorable litigation ruling to GETS-GS, which the Company disagrees with and intends to continue to contest. Other costs comprising the increase include restructuring costs at the Company's electronics unit, higher medical and insurance claims experience, foreign exchange costs and overall higher costs from inflation and sales activity. These increases were partially offset by reduced amortization expense. Amortization expense decreased due to certain intangible assets having been fully amortized.

Income from operations. Income from operations totaled $55.4 million (or 6.7% of sales) in 2004 compared with $49.8 million (or 6.9% of sales) in 2003. Higher operating income resulted from increased sales in 2004 offset by higher operating expenses.

Interest expense. Interest expense increased 3.7% in 2004 as compared to 2003 primarily due to the Company's sale of senior notes in August 2003. These notes, while resulting in higher interest expense for the current year, enabled the Company to convert short-term, variable-rate debt into fixed-rate debt at an attractive long-term interest rate.

Other expense. The Company incurred foreign exchange losses of $1.2 million and $2.8 million, respectively, in 2004 and 2003, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts and charged or credited to earnings.

Income taxes. 2004 includes a tax benefit of $4.9 million primarily related to the reversal of certain items that had previously been provided for that were closed from further regulatory examination. The effective income tax rate, not including the aforementioned tax benefit, remains unchanged and was 36.5% for 2004 and 2003. In 2004, the American Jobs Creation Act of 2004 was passed. The Company is in the process of evaluating the impact to the Company and its subsidiaries.

Net income. Net income for 2004 increased $9.7 million, compared with 2003. The increase was due to higher sales and the tax benefit mentioned above, partially offset by other items including the unfavorable GETS-GS litigation ruling, increased environmental reserve and higher manufacturing costs.

2003 COMPARED TO 2002

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

	For the year ended December 31,		
In thousands	2003	2002	Percent Change
Net sales	$717,924	$696,195	3.1%
Income from operations	49,814	46,730	6.6%
Income before cumulative effect of accounting change	22,703	16,184	40.3%
Net income (loss)	22,703	(45,479)	149.9%

In 2002, we completed fair value assessments of goodwill and wrote down the carrying value of goodwill by $90 million ($83.2 million for the Freight Group and $6.8 million for the Transit Group) in accordance with the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets." The total impact of the writedown, net of taxes, was $61.7 million.

The following table shows the Company's net sales by business segment:

	For the year ended December 31,	
In thousands	2003	2002
Freight Group	$ 522,279	$ 443,443
Transit Group	195,645	252,752
Net sales	$ 717,924	$ 696,195

Net sales. Net sales for 2003 increased $21.7 million, or 3.1%, as compared to 2002. The increased sales in the Freight Group more than offset lower sales in the Transit Group. The Freight Group's increased sales reflected higher sales of components for new freight cars and locomotives, and commuter locomotives, as well as

higher international sales. Industry deliveries of new freight cars for 2003 increased to about 31,400 units as compared to about 17,700 in 2002. The Transit Group's decreased sales were due to the completion of a contract to supply components for New York City subway cars in 2002 and lower aftermarket sales.

Gross profit. Gross profit increased to $189.5 million in 2003 compared to $179.5 million in 2002. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. Gross profit, as a percentage of sales, was 26.4% compared to 25.8% in 2002. The increase in gross profit percentage is primarily due to higher sales and favorable product mix, which more than offset the negative impact of the weakening U.S. dollar versus the Canadian dollar.

The following table shows our operating expenses:

	For the year ended December 31,		
In thousands	**2003**	**2002**	**Percent Change**
Selling, general and administrative expenses	$102,398	$ 93,827	9.1%
Engineering expenses	32,929	33,592	(2.0)%
Amortization expense	4,309	5,322	(19.0)%
Total operating expenses	$139,636	$132,741	5.2%

Operating expenses. Operating expenses increased $6.9 million in 2003 as compared to 2002 due to the write-off of non-operating assets of $1.6 million, and higher medical and insurance premiums, partially offset by reduced amortization expense. Amortization expense decreased due to certain intangible assets having been fully amortized.

Income from operations. Income from operations totaled $49.8 million (or 6.9% of sales) in 2003 compared with $46.7 million (or 6.7% of sales) in 2002. Higher operating income resulted from increased sales and gross margins, but was partially offset by increased operating expenses in 2003.

Interest expense. Interest expense decreased 41.9% in 2003 as compared to 2002 primarily due to a substantial decrease in debt.

Other expense. The Company incurred foreign exchange losses of $2.8 million and $1.2 million, respectively, in 2003 and 2002, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts and charged or credited to earnings.

Income taxes. 2003 includes a tax benefit of $2.7 million primarily related to the reversal of certain items that had previously been provided for that were closed from further regulatory examination. The effective income tax rate was 36.5% for 2003 and 32% for 2002. The change in the effective tax rate was due to a higher effective state tax rate and increased statutory rates in foreign jurisdictions. Also, increased income has reduced the significance of the favorable impact the Company's utilization of foreign tax credits has on the effective tax rate.

Net income. Net income for 2003 increased $68.2 million, compared with 2002, which included a $61.7 million, net of tax, write off of goodwill. Income before the cumulative effect of an accounting change increased $6.5 million, compared with 2002. The increase was due to increased sales, improved margins, and lower interest expense.

Income Taxes

Management believes in the next three years cash outlays for income taxes will be less than income tax expense due to the utilization of NOLs and the amortization of goodwill and intangible assets which will continue to be amortized for tax purposes. The Company's current level of pre-tax income is sufficient to utilize

the deferred tax assets. In 2004, the Company has produced a $1.1 million federal net operating loss to be carried forward. A portion of the reported federal credits in the amount of $4.2 million will be realized through a carry back claim. Management believes tax planning opportunities exist in various foreign countries that will allow the Company to utilize foreign net operating loss carryforwards at an accelerated rate. Any tax assets that are uncertain regarding realization have a valuation allowance in the full amount of the asset. Management believes the remaining assets will be realized in the normal course of business.

The overall effective income tax rate includes a tax benefit of $4.9 million and $2.7 million in 2004 and 2003 respectively, which is primarily related to the reversal of certain items that had previously been provided for and that have been closed from further regulatory examination

Liquidity and Capital Resources

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

	For the year ended December 31,		
In thousands	2004	2003	2002
Cash provided by (used for):			
Operating activities	$ 52,867	$ 55,904	$ 15,658
Investing activities	(17,808)	(12,549)	(10,817)
Financing activities:			
Debt paydown	(40,115)	(4,949)	(45,941)
Other	21,576	14,125	1,887
Earnings before interest, taxes, depreciation and amortization (EBITDA)	80,846	71,895	68,426

Management utilizes EBITDA as a measure of liquidity. The following is a reconciliation of EBITDA to net cash provided by operating activities:

	For the year ended December 31,		
In thousands	2004	2003	2002
Net cash provided by operating activities	$52,867	$55,904	$15,658
Change in operating assets and liabilities	2,172	563	26,925
Change from discontinued operations	349	344	(184)
Change from deferred income taxes	3,169	(8,824)	(702)
Interest expense	11,528	11,118	19,135
Income tax expense	10,761	12,790	7,594
Earnings before interest, taxes, depreciation and amortization (EBITDA)	$80,846	$71,895	$68,426

EBITDA is defined as earnings before deducting interest expense, income taxes and depreciation and amortization. Although EBITDA is not a measure of performance calculated in accordance with generally accepted accounting principles, management believes that it is useful to an investor in evaluating Wabtec because it is widely used as a measure to evaluate a Company's operating performance and ability to service debt. Financial covenants in our credit facility include ratios based on EBITDA. EBITDA does not purport to represent cash generated by operating activities and should not be considered in isolation or as substitute for measures of performance in accordance with generally accepted accounting principles. In addition, because EBITDA is not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies. Management's discretionary use of funds depicted by EBITDA may be limited by working capital, debt service and capital expenditure requirements, and by restrictions related to legal requirements, commitments and uncertainties.

Operating activities. Operating cash flow in 2004 was $52.9 million as compared to $55.9 million in 2003. Net Income was approximately $9.7 million higher in 2004 than 2003. Working capital decreased, and generated operating cash, by $6.2 million, as accounts payable and accruals increased $26.1 million, offset by an increase in receivables, inventory and other current assets of $10.8 million, $5.2 million and $3.9 million, respectively. Deferred and accrued income taxes remained relatively unchanged compared to an $8.8 million decrease in 2003. The remaining use of operating cash is due to a net increase in the other assets less other liabilities in 2004.

Operating cash flow in 2003 was $55.9 million as compared to $15.7 million in 2002. Working capital remained relatively unchanged in 2003, as receivables and inventory increased $13.2 million, and accounts payable increased $14.1 million. Also, deferred income taxes decreased by $8.8 million in 2003.

During 2002, cash outlays for merger and restructuring activities was approximately $2.5 million and is reported as a reduction to cash provided by operating activities. Also, in 2002, $30 million was paid in taxes related to the gain on the sale of locomotive aftermarket assets in 2001. The operating cash flow in 2002 excluding the $30 million tax payment from 2001 was approximately $46 million.

Investing activities. In 2004 and 2003, cash used in investing activities was $17.8 million and $12.5 million, respectively, consisting almost entirely of capital expenditures, net of disposals. In 2002 cash used in investing activities was $10.8 million. In 2002, the Company used $1.7 million for certain business acquisitions. See Note 5 of "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report, for further information.

Capital expenditures for continuing operations were $19.3 million, $17.5 million and $14.1 million in 2004, 2003 and 2002, respectively. The majority of capital expenditures for these periods relates to upgrades to and replacement of existing equipment.

Financing activities. In 2004, cash used for financing activities was $18.5 million compared to cash provided by financing activities of $9.2 million in 2003.

During 2004, long term debt was reduced by $40.1 million. The Company also realized proceeds of $23 million from the exercise of stock options during 2004. In 2003, the Company issued $150 million of Senior Notes due in August 2013 ("the Notes"). The Notes were issued at par and interest accrues at 6.875% and is payable semi-annually on January 31 and July 31 of each year, commencing on January 31, 2004. The proceeds were used to repay debt outstanding under the Company's then existing bank credit agreement, and for general corporate purposes.

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

In November 2003, the Company issued common stock in connection with the registration and sale of stock by certain selling shareholders. The Company issued 726,900 shares of common stock realizing total proceeds of about $10 million. See "Prospectus Summary—Recent Development."

Cash used for financing activities was $44.1 million in 2002. During 2002, the Company reduced long-term debt by $45.9 million. We repaid $175 million of senior notes in the third quarter of 2002 to take advantage of lower interest rates on our revolving credit agreement. Historically, the Company have financed the purchase of significant businesses utilizing cash flow generated from operations and amounts available under its credit facilities.

The following table shows outstanding indebtedness at December 31, 2004 and 2003. The revolving credit agreement and other term loan interest rates are variable and dependent on market conditions.

In thousands	December 31, 2004	December 31, 2003
Revolving credit agreement	$ —	$ 40,000
6.875% senior notes	150,000	150,000
Other	107	225
Total	150,107	190,225
Less—current portion	—	—
Long-term portion	$ 150,107	$ 190,225

Cash balance at December 31, 2004 and 2003 was $95.3 million and $70.3 million, respectively.

On February 1, 2005, the Company completed the acquisition of assets of Rütgers Rail S.p.A. The acquisition was accounted for as a purchase and accordingly, the purchase price will be allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results will be included in the consolidated statement of operations from the acquisition date forward. The new company formed to hold the newly purchased assets of Rütgers Rail S.p.A. is named CoFren S.r.l. (“CoFren”). CoFren has become the leading manufacturer of brake shoes, disc pads and interior trim components for rail applications in Europe. The purchase price was $36.6 million in cash, and is subject to adjustment based on a calculation of net worth as defined in the Sale and Purchase agreement. The adjustment is to be completed within 90 business days of the acquisition date.

Refinancing Credit agreement. In January 2004, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This “Refinancing Credit Agreement” provides a $175 million five-year revolving credit facility expiring in January 2009. At December 31, 2004, the Company had available bank borrowing capacity, net of $21.9 million of letters of credit, of approximately $153.1 million, subject to certain financial covenant restrictions.

Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. The maximum credit agreement borrowings, average credit agreement borrowings and weighted-average contractual interest rate on credit agreement borrowings were $40 million, $36.7 million and 2.9%, respectively for 2004. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. On December 31, 2003, the notional value of interest rate swaps outstanding totaled $40 million and effectively changed our interest rate from a variable rate to a fixed rate of 3.98%. The interest rate swap agreements were terminated, for a net gain of about $200,000 in 2004 in conjunction with the $40 million repayment of the revolving credit agreement.

Under the Refinancing Credit Agreement, we may elect a base interest rate or an interest rate based on the London Interbank Offered Rates of Interest (“LIBOR”). The base interest rate is the greater of LaSalle Bank National Association’s prime rate or the federal funds effective rate plus 0.5% per annum. The LIBOR rate is based on LIBOR plus a margin that ranges from 100 to 200 basis points depending on our consolidated total indebtedness to cash flow ratios. The current margin is 100 basis points.

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

The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and "change of control" of the Company. The Refinancing Credit Agreement includes the following covenants: a minimum interest coverage ratio of 3.0, maximum debt to cash flow ratio of 3.25 and a minimum net worth of $180 million plus 50% of consolidated net income since September 30, 2003. The Company is in compliance with these measurements and covenants and expects that these measurements will not be any type of limiting factor in executing our operating activities. See Note 9 of "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report.

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

Extinguishment of other debt. In June 1995, the Company issued $100 million of 9.375% Senior Notes due in 2005 (the "1995 Notes"). In January 1999, the Company issued an additional $75 million of 9.375% Senior Notes due in 2005 (the "1999 Notes"). The 1995 Notes and the 1999 Notes were redeemed at par (face) on July 8, 2002 through the use of cash on hand and additional borrowings under the credit agreement. This redemption resulted in a non-cash loss of $1.9 million relating to a write-off of deferred debt issuance costs.

Effects of Inflation

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

Contractual Obligations and Off-Balance Sheet Arrangements

The Company is obligated to make future payments under various contracts such as debt agreements, lease agreements and have certain contingent commitments such as debt guarantees. The Company has grouped these contractual obligations and off-balance sheet arrangements into operating activities, financing activities, and investing activities in the same manner as they are classified in the Statement of Consolidated Cash Flows to provide a better understanding of the nature of the obligations and arrangements and to provide a basis for comparison to historical information. The table below provides a summary of contractual obligations and off-balance sheet arrangements as of December 31, 2004:

In thousands	Total	2005	2006 to 2007	2008 to 2009	Thereafter
Operating activities:					
Unconditional purchase obligations (1)	$ —	$ —	$ —	$ —	$ —
Long-term purchase obligations (1)	347	347	—	—	—
Operating leases (2)	36,642	7,332	12,952	9,137	7,221
Estimated pension funding (3)	—	6,826	13,858	14,659	—
Postretirement benefit payments (4)	—	2,408	4,997	5,241	—
Financing activities:					
Long-term debt (5)	150,107	—	107	—	150,000
Dividends to shareholders (6)	—	—	—	—	—
Investing activities:					
Capital projects (7)	25,000	25,000	—	—	—
Other:					
Standby letters of credit (8)	21,909	17,387	3,039	1,483	—
Guarantees (9)	1,300	—	—	—	—
Total		$59,300	$34,953	$30,520	

(1) Unconditional purchase obligations for the purposes of this disclosure have been defined as a contractual obligation to purchase utilities, electricity, natural gas that is in excess of $100,000 annually, and $200,000 in total. Long-term purchase obligations for the purposes of this disclosure have been defined as a contractual obligation to purchase raw materials or supplies that are non-cancelable, and are in excess of $100,000 annually, and $200,000 in total.

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

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

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

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

(6) Shareholder dividends are subject to approval by the Company’s Board of Directors, currently at an annual rate of $1.8 million.

(7) The annual capital expenditure budget is subject to approval by the Board of Directors. The 2005 budget amount was approved at the February 2005 Board of Directors meeting up to $25 million.

(8) The Company has $21.9 million in outstanding letters of credit for performance and bid bond purposes, which expire in various dates through 2009.

(9) Guarantee for debt of former operating unit sold in 2001.

Obligations for operating activities. The Company has entered into $347,000 of material long-term non-cancelable materials and supply purchase obligations. Operating leases represent multi-year obligations for rental of facilities and equipment. Estimated pension funding and post retirement benefit payments are based on actuarial estimates using current assumptions for discount rates, expected return on long-term assets, rate of compensation increases and health care cost trend rates. Benefits paid for pension obligations were $6.1 million and $5.7 million in 2004 and 2003, respectively. Benefits paid for post retirement plans were $3.5 million and $2.1 million in 2004 and 2003, respectively.

Obligations for financing activities. Cash requirements for financing activities consist primarily of long-term debt repayments and dividend payments to shareholders. The Company has historically paid quarterly dividends to shareholders, subject to quarterly approval by our Board of Directors, currently at a rate of $1.8 million annually.

In 2001, the Company sold a subsidiary to that unit's management team. As part of the sale, the Company guaranteed approximately $3 million of bank debt of the buyer, which was used for the purchase financing. This debt was refinanced in June 2004, and Wabtec's guarantee was reduced to $1.3 million. Management has no reason to believe that this debt will not be repaid or refinanced.

The Company arranges for performance bonds to be issued by third party insurance companies to support certain long term customer contracts. At December 31, 2004, initial value of performance bonds issued on the Company's behalf is about $150 million.

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

Forward Looking Statements

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

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

Economic and industry conditions

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

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

Operating factors

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

Competitive factors

- the actions of competitors;

Political/governmental factors

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

Transaction or commercial factors

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

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

Critical Accounting Policies

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

reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Areas of uncertainty that require judgments, estimates and assumptions include the accounting for derivatives, environmental matters, warranty reserves, the testing of goodwill and other intangibles for impairment, proceeds on assets to be sold, pensions and other postretirement benefits, and tax matters. Management uses historical experience and all available information to make these judgments and estimates, and actual results will inevitably differ from those estimates and assumptions that are used to prepare the Company's financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the financial statements and related footnotes provide a meaningful and fair perspective of the Company. A discussion of the judgments and uncertainties associated with accounting for derivatives and environmental matters can be found in Notes 2 and 18, respectively, in the "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report.

A summary of the Company's significant accounting policies is included in Note 2 in the "Notes to Consolidated Financial Statements" included in Part IV, Item 15 of this report. Management believes that the application of these policies on a consistent basis enables the Company to provide the users of the financial statements with useful and reliable information about the Company's operating results and financial condition.

The Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other output-based measures, as appropriate, are used to measure the progress of individual contracts towards completion. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as known. Provisions are made currently for estimated losses on uncompleted contracts. Certain pre-production costs relating to long term production and supply contracts have been deferred and will be amortized over the life of the contract.

In 2002, we adopted the new standard of accounting for goodwill and intangible assets with indefinite lives. The cumulative effect adjustment recognized on January 1, 2002, upon adoption of the new standard, was a charge of $61.7 million (after tax). Also in 2002, amortization ceased for goodwill and intangible assets with indefinite lives. Total amortization expense for intangible assets recognized was $2.4 million in 2004, $3.4 million in 2003 and $4 million in 2002. Additionally, goodwill and indefinite-lived intangibles are required to be tested for impairment at least annually. The evaluation of impairment involves comparing the current fair value of the business to the recorded value (including goodwill). We use a combination of a guideline public company market approach and a discounted cash flow model ("DCF model") to determine the current fair value of the business. A number of significant assumptions and estimates are involved in the application of the DCF model to forecasted operating cash flows, including markets and market share, sales volume and pricing, costs to produce and working capital changes. Management considers historical experience and all available information at the time the fair values of its business are estimated. However, actual fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill.

The allowance for doubtful accounts receivable reflects our best estimate of probable losses inherent in our receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence.

The Company provides warranty reserves to cover expected costs from repairing or replacing products with durability, quality or workmanship issues occurring during established warranty periods. In general, reserves are provided for as a percentage of sales, based on historical experience. In addition, specific reserves are established for known warranty issues and their estimable losses.

Inventory is reviewed to ensure that an adequate provision is recognized for excess, slow moving and obsolete inventories. The Company compares inventory components to prior year sales history and current backlog requirements. To the extent that inventory parts exceed estimated usage and demand, a reserve is recognized to reduce the carrying value of inventory. Also, specific reserves are established for known inventory obsolescence.

Other areas of significant judgments and estimates include the liabilities and expenses for pensions and other postretirement benefits. These amounts are determined using actuarial methodologies and incorporate significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age and mortality). The rate used to discount future estimated liabilities is determined considering the rates available at year-end on debt instruments that could be used to settle the obligations of the plan. The long-term rate of return is estimated by considering historical returns and expected returns on current and projected asset allocations and is generally applied to a five-year average market value of assets.

As a global company, Wabtec records an estimated liability or benefit for income and other taxes based on what it determines will likely be paid in various tax jurisdictions in which it operates. Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters including the resolution of the tax audits in the various affected tax jurisdictions and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the recorded amount. Management does not believe that such a charge would be material.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

In the ordinary course of business, we are exposed to risks that increases in interest rates may adversely affect funding costs associated with variable-rate debt. There was no outstanding variable rate debt at December 31, 2004. After considering the effects of interest rate swaps, further described below, our variable rate debt represented 0% of total long-term debt at December 31, 2003. Management had entered into pay-fixed, receive-variable interest rate swap contracts that mitigated the impact of variable-rate debt interest rate increases. These interest rate swap contracts were terminated in 2004. In 2003, we had concluded that our swap contracts qualified for “special cash flow hedge accounting” which permitted recording the fair value of the swap and corresponding adjustment to other comprehensive income on the balance sheet (see Note 20 of “Notes to Consolidated Financial Statements” included in Part IV, Item 15 of this report).

Foreign Currency Exchange Risk

We occasionally enter into several types of financial instruments for the purpose of managing our exposure to foreign currency exchange rate fluctuations in countries in which we have significant operations. As of December 31, 2004, we had several such instruments outstanding to hedge currency rate fluctuation in 2005.

We entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with a counterparty to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date we can either take delivery of the currency or settle on a net basis. All outstanding forward contracts are for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). As of December 31, 2004, we had forward contracts with a notional value of $59 million CAD (or $43.5 million U.S.), with an average exchange rate of $0.74 USD per $1 CAD, resulting in the recording of a current asset and an increase in comprehensive income of $3.6 million, net of tax.

We are also subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. dollar. For the year ended December 31, 2004, approximately 66% of Wabtec’s net sales are in the United States, 10% in Canada, 2% in Mexico, and 22% in other international locations, primarily Europe. (See Note 19 of “Notes to Consolidated Financial Statements” included in Part IV, Item 15 of this report).

Our market risk exposure is not substantially different from our exposure at December 31, 2003.

Recent Accounting Pronouncements

Effective December 31, 2003, Wabtec adopted SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Post-retirement Benefits—an Amendment of FASB Statements No. 87, 88 and 106" for its U.S. pension plans. This standard requires additional disclosures about an employer's pension plans and postretirement benefits such as: the type of plan assets, investment strategy, measurement date, plan obligations, cash flows, and components of net periodic benefit costs recognized during interim periods. See Note 10 to the Consolidated Financial Statements for the required additional disclosures.

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, (Inventory Costs—an Amendment of ARB No. 43, Chapter 4." This standard provides clarification that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be recognized as current period charges. Additionally, this standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this standard are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the effect of this standard on the Company's financial statements and results of operations.

SFAS No. 123 (revised 2004) "Share-Based Payment" was issued in December 2004. This standard requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. The effective date is the first interim reporting period beginning after June 15, 2005. Wabtec is currently evaluating pricing models and the transition provisions of this standard and will begin expensing stock options in the third quarter of 2005.

In December 2004, the FASB issued FSP No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP 109-2 provides guidance under SFAS No. 109, "Accounting for Income Taxes" with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the impact of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The Company has not yet completed evaluating the impact of the repatriation provisions. Accordingly, provided for in FSP 109-2, the Company has not adjusted its tax expense or deferred tax liability to reflect the repatriation provisions of the Job Act.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

There have been no disagreements with our independent public accountants.

Item 9A. CONTROLS AND PROCEDURES

Wabtec's principal executive officer and its principal financial officer have evaluated the effectiveness of Wabtec's "disclosure controls and procedures," (as defined in Exchange Act Rule 13a-15(e)) as of December 31, 2004. Based upon their evaluation, the principal executive officer and principal financial officer concluded that Wabtec's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by Wabtec in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by Wabtec in such reports is accumulated and communicated to Wabtec's management, including its principal executive officer and principal finance officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in Wabtec's "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2004, that has materially affected, or is reasonably likely to materially affect, Wabtec's internal control over financial reporting. Management's annual report on internal control over financial reporting and the attestation report of the registered public accounting firm are included in Part IV, Item 15 of this report.

Item 9B. OTHER INFORMATION

None.

PART III

Items 10 through 14.

In accordance with the provisions of General Instruction G to Form 10-K, the information required by Item 10 (Directors and Executive Officers of the Registrant), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), Item 13 (Certain Relationships and Related Transactions) and Item 14 (Principal Accountant Fees and Services) is incorporated herein by reference from the Company's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 18, 2005. The definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2004. Information relating to the executive officers of the Company is set forth in Part I.

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

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

			Page
(a)	(1)	**Financial Statements**	
		Management's Reports to Westinghouse Air Brake Technologies Corporation Shareholders	37
		Report of Independent Registered Public Accounting Firm	38
		Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	39
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		Consolidated Statements of Operations for the three years ended December 31, 2004, 2003 and 2002	41
		Consolidated Statements of Cash Flows for the three years ended December 31, 2004, 2003 and 2002	42
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	(2)	**Financial Statement Schedules**	
		Schedule II—Valuation and Qualifying Accounts	74

(b) **Reports on Form 8-K**

During the fourth quarter of 2004, the Company filed or furnished the following Current Reports on Form 8-K pertaining to the following items:

(1) A report dated October 22, 2004, under Items 2.02 and 9.01, the press release, dated October 21, 2004 announcing the financial results of the Company for the quarter ended September 30, 2004.

(2) A report dated December 20, 2004, under Items 8.01 and 9.01, the press release, dated December 20, 2004 announcing the Company's earnings guidance for the year ended December 31, 2004 and 2005.

(c)		**Exhibits**	Filing Method
	2.1	Amended and Restated Agreement and Plan of Merger, as amended (originally included as Annex A to the Joint Proxy Statement/Prospectus)	5
	3.1	Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995	2
	3.3	Amended and Restated By-Laws of the Company, effective November 19, 1999	5
	4.1(a)	Indenture with the Bank of New York as Trustee dated as of August 6, 2003	12
	4.1(b)	Resolutions Adopted July 23, 2003 by the Board of Directors establishing the terms of the offering of up to $150,000,000 aggregate principal amount of 6.875% Notes due 2013	12

(c)	Exhibits	Filing Method
4.2	Purchase Agreement, dated July 23, 2003, by and between the Company and the initial purchasers	12
4.3	Exchange and Registration Rights Agreement, dated August 6, 2003	12
10.1	MotivePower Stock Option Agreement (originally included as Annex B to the Joint Proxy Statement/Prospectus)	5
10.2	Westinghouse Air Brake Stock Option Agreement (originally included as Annex C to the Joint Proxy Statement/Prospectus)	5
10.3	Voting Agreement dated as of September 26, 1999 among William E. Kassling, Robert J. Brooks, Harvard Private Capital Holdings, Inc. Vestar Equity Partners, L.P. and MotivePower Industries, Inc. (originally included as Annex D to the Joint Proxy Statement/Prospectus)	5
10.9	Amended and Restated Refinancing Credit Agreement dated as of November 19, 1999 among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York (Schedules and Exhibits omitted)	6
10.10	Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the RAC Voting Trust (“Voting Trust”), Vestar Equity Partners, L.P. (“Vestar Equity”), Harvard Private Capital Holdings, Inc. (“Harvard”), American Industrial Partners Capital Fund II, L.P. (“AIP”) and the Company	3
10.12	Indemnification Agreement dated January 31, 1995 between the Company and the Voting Trust Trustees	2
10.13	Agreement of Sale and Purchase of the North American Operations of the Railway Products Group, an operating division of American Standard Inc., dated as of 1990 between Rail Acquisition Corp. and American Standard Inc. (only provisions on indemnification are reproduced)	2
10.14	Letter Agreement (undated) between the Company and American Standard Inc. on environmental costs and sharing	2
10.15	Purchase Agreement dated as of June 17, 1992 among the Company, Schuller International, Inc., Manville Corporation and European Overseas Corporation (only provisions on indemnification are reproduced)	2
10.16	Asset Purchase Agreement dated as of January 23, 1995 among the Company, Pulse Acquisition Corporation, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc. and the Pulse Shareholders (Schedules and Exhibits omitted)	2
10.17	License Agreement dated as of December 31, 1993 between SAB WABCO Holdings B.V. and the Company	2
10.18	Letter Agreement dated as of January 19, 1995 between the Company and Vestar Capital Partners, Inc.	2
10.19	Westinghouse Air Brake Company 1995 Stock Incentive Plan, as amended	4
10.20	Westinghouse Air Brake Company 1995 Non-Employee Directors’ Fee and Stock Option Plan, as amended	6
10.22	Letter Agreement dated as of January 1, 1995 between the Company and Vestar Capital Partners, Inc.	2
10.23	Form of Indemnification Agreement between the Company and Authorized Representatives	2

(c)		Exhibits	Filing Method
	10.27	Amendment No. 1 to Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the Voting Trust, Vestar, Harvard, AIP and the Company	3
	10.28	Common Stock Registration Rights Agreement dated as of March 5, 1997 among the Company, Harvard, AIP and the Voting Trust	3
	10.29	1998 Employee Stock Purchase Plan	4
	10.32	Westinghouse Air Brake Technologies Corporation 2000 Stock Incentive Plan	7
	10.33	Amendment No. 1, dated as of November 16, 2000, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and ABN AMRO Bank N.V. as bookrunner and co-syndication agent, The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999 among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	8
	10.34	Amendment No. 2, dated as of March 30, 2001, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and ABN AMRO Bank N.V. as bookrunner and co-syndication agent, The Chase Manhattan Bank as administrative agent, The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999, as amended, among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	10
	10.35	Amendment No. 3, dated as of July 18, 2001, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and LaSalle Bank National Association and ABN AMRO Bank N.V. as bookrunner and co-syndication agent, The Bank of New York, as co-syndication agent, The Chase Manhattan Bank as administrative agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999, as amended, among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	10
	10.36	Amendment No. 4, dated as of September 17, 2001, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and LaSalle Bank National Association as bookrunner and co-syndication agent, The Chase Manhattan Bank as administrative agent, The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as	

(c)		Exhibits	Filing Method
		of November 19, 1999, as amended, among the Company, various financial institutions, LaSalle Bank National Association, The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	10
	10.37	Amendment No. 5, dated as of November 14, 2001, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and LaSalle Bank National Association as bookrunner and co-syndication agent, JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank) as administrative agent, The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999, as amended, among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	10
	10.38	Amendment No. 6, dated as of November 13, 2002, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and LaSalle Bank National Association as bookrunner and co-syndication agent, JP Morgan Chase Bank as administrative agent, and The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, LaSalle Bank National Association, as an issuing bank, ABN AMRO Bank N.V., as an issuing bank, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999, as amended, among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999	11
	10.39	Asset Purchase Agreement, by and between General Electric Company, through its GE Transportation Systems business and Westinghouse Air Brake Technologies Corporation, dated as of July 24, 2001	9
	10.40	Refinancing Credit Agreement by and among the Company, the Guarantors, various lenders, LaSalle Bank National Association, JP Morgan Chase Bank, The Bank of New York, Citizens Bank of Pennsylvania, National City Bank of Pennsylvania, The Bank of Nova Scotia, Bank of Tokyo-Mitsubishi Trust Company and PNC Bank, National Association dated January 12, 2004	13
	10.41	Sale and Purchase Agreement, by and between Rütgers Rail S.p.A. and the Company, dated August 12, 2004.	1
	10.42	Amendment Agreement dated January 28, 2005 by and among Rütgers Rail S.p.A., the Company, CoFren S.r.l. and RFPC Holding Company to the Sale and Purchase Agreement dated August 12, 2004.	1
	21	List of subsidiaries of the Company	1
	23.1	Consent of Ernst & Young LLP	1
	31.1	Rule 13a-14(a)/15d-14(a) Certifications	1
	32.1	Section 1350 Certifications	1
	99.1	Annual Report on Form 11-K for the year ended December 31, 2004 of the Westinghouse Air Brake Technologies Corporation Savings Plan	1

1 Filed herewith.

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

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

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

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

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

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

8 Filed as an exhibit to the Company’s Annual Report on Form 10-K for the period ended December 31, 2000.

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

10 Filed as an exhibit to the Company’s Annual Report on Form 10-K for the period ended December 31, 2001.

11 Filed as an exhibit to the Company’s Annual Report on Form 10-K for the period ended December 31, 2002.

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

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

MANAGEMENT'S REPORTS TO WABTEC SHAREHOLDERS

Management's Report on Financial Statements and Practices

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

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

Management's Report on Internal Control over Financial Reporting

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

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2004, based on criteria in Internal Control-Integrated Framework issued by the COSO. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Management's Certifications

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required by the Sarbanes-Oxley Act have been included in Exhibits 31 and 32 in the Company's 10-K. In addition, in 2004, the Company's Chief Executive Officer provided to the New York Stock Exchange the annual CEO certification regarding the Company's compliance with the New York Stock Exchange's corporate governance listing standards.

By /s/ WILLIAM E. KASSLING

William E. Kassling,
Chairman of the Board,
President, Chief Executive Officer and Director

By /s/ ALVARO GARCIA-TUNON

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Westinghouse Air Brake Technologies Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the index at Item 15(a) of this Registration Statement. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Westinghouse Air Brake Technologies Corporation and subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As more fully discussed in Note 8 of the consolidated financial statements, effective January 1, 2002, Westinghouse Air Brake Technologies Corporation adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Westinghouse Air Brake Technologies Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Pittsburgh, Pennsylvania

March 11, 2005

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

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Westinghouse Air Brake Technologies Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Westinghouse Air Brake Technologies Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Westinghouse Air Brake Technologies Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Westinghouse Air Brake Technologies Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Westinghouse Air Brake Technologies Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004 and our report dated March 11, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Pittsburgh, Pennsylvania

March 11, 2005

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONSOLIDATED BALANCE SHEETS

In thousands, except share and par value	December 31, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	$ 95,257	$ 70,328
Accounts receivable	139,843	129,074
Inventories	96,992	91,809
Deferred income taxes	16,122	23,457
Other	11,359	7,424
Total current assets	359,573	322,092
Property, plant and equipment	340,948	332,619
Accumulated depreciation	(189,987)	(178,780)
Property, plant and equipment, net	150,961	153,839
Other Assets		
Goodwill	113,466	109,450
Other intangibles, net	39,880	37,776
Deferred income taxes	35,476	20,315
Other noncurrent assets	14,040	12,833
Total other assets	202,862	180,374
Total Assets	$ 713,396	$ 656,305
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 92,189	$ 79,747
Accrued income taxes	3,299	126
Customer deposits	27,693	16,818
Accrued compensation	18,944	18,131
Accrued warranty	17,413	13,307
Other accrued liabilities	21,334	24,651
Total current liabilities	180,872	152,780
Long-term debt	150,107	190,225
Reserve for postretirement and pension benefits	43,112	39,055
Deferred income taxes	14,523	11,631
Commitments and contingencies	6,171	5,536
Notes payable	487	3,198
Other long-term liabilities	5,698	5,587
Total liabilities	400,970	408,012
Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized, no shares issued	—	—
Common stock, $.01 par value; 100,000,000 shares authorized: 66,174,767 shares issued and 46,192,223 and 44,631,733 outstanding at December 31, 2004 and 2003, respectively	662	662
Additional paid-in capital	286,694	282,872
Treasury stock, at cost, 19,982,544 and 21,543,034 shares, at December 31, 2004 and 2003, respectively	(248,021)	(267,586)
Retained earnings	282,868	252,234
Accumulated other comprehensive loss	(9,777)	(19,889)
Total shareholders' equity	312,426	248,293
Total Liabilities and Shareholders' Equity	$ 713,396	$ 656,305

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands, except per share data	Year ended December 31, 2004	2003	2002
Net sales	$ 822,018	$ 717,924	$ 696,195
Cost of sales	(616,854)	(528,474)	(516,724)
Gross profit	205,164	189,450	179,471
Selling, general and administrative expenses	(112,621)	(102,398)	(93,827)
Engineering expenses	(33,795)	(32,929)	(33,592)
Amortization expense	(3,343)	(4,309)	(5,322)
Total operating expenses	(149,759)	(139,636)	(132,741)
Income from operations	55,405	49,814	46,730
Other income and expenses			
Interest expense, net	(11,528)	(11,118)	(19,135)
Other expense, net	(1,020)	(3,654)	(3,691)
Income from continuing operations before income taxes and cumulative effect of accounting change	42,857	35,042	23,904
Income tax expense	(10,761)	(12,790)	(7,594)
Income from continuing operations before cumulative effect of accounting change	32,096	22,252	16,310
Discontinued operations			
Income from discontinued operations (net of tax)	349	451	403
(Loss) gain on sale of discontinued operations (net of tax)	—	—	(529)
Total discontinued operations	349	451	(126)
Income before cumulative effect of accounting change	32,445	22,703	16,184
Cumulative effect of accounting change for goodwill, net of tax	—	—	(61,663)
Net income (loss)	$ 32,445	$ 22,703	$ (45,479)
Earnings Per Common Share			
Basic			
Income from continuing operations before cumulative effect of accounting change	$ 0.71	$ 0.51	$ 0.37
Income from discontinued operations	0.01	0.01	—
Cumulative effect of accounting change	—	—	(1.42)
Net income (loss)	$ 0.72	$ 0.52	$ (1.05)
Diluted			
Income from continuing operations before cumulative effect of accounting change	$ 0.70	$ 0.51	$ 0.37
Income from discontinued operations	0.01	0.01	—
Cumulative effect of accounting change	—	—	(1.41)
Net income (loss)	$ 0.71	$ 0.52	$ (1.04)
Weighted average shares outstanding			
Basic	44,993	43,538	43,291
Diluted	45,787	43,974	43,617

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands	Year Ended December 31, 2004	2003	2002
Operating Activities			
Net income (loss)	$ 32,445	$ 22,703	$ (45,479)
Adjustments to reconcile net income (loss) to cash provided by operations:			
Cumulative effect of accounting change for goodwill, net of tax	—	—	61,663
Depreciation and amortization	26,112	25,284	25,513
Results of discontinued operations, net of tax	(349)	(451)	126
Deferred income taxes	(3,169)	8,824	702
Discontinued operations	—	107	58
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable	(14,844)	(12,410)	(548)
Inventories	(6,885)	(796)	17,812
Accounts payable	14,832	14,138	(12,814)
Accrued income taxes	3,713	286	(30,262)
Accrued liabilities and customer deposits	14,580	2,836	1,964
Commitments and contingencies	635	(2,032)	(3,033)
Other assets and liabilities	(14,203)	(2,585)	(44)
Net cash provided by operating activities	52,867	55,904	15,658
Investing Activities			
Purchase of property, plant and equipment	(19,262)	(17,470)	(14,137)
Proceeds from disposal of property, plant and equipment	1,454	5,048	3,673
Acquisitions of businesses, net of cash acquired	—	—	(1,654)
Cash received from disposition of discontinued operations	—	—	1,400
Discontinued operations	—	(127)	(99)
Net cash used for investing activities	(17,808)	(12,549)	(10,817)
Financing Activities			
(Repayments) borrowings of credit agreements	(40,000)	(149,700)	129,700
Borrowings (repayments) of senior notes	—	150,000	(175,000)
Repayments of other borrowings	(115)	(5,249)	(641)
Stock issuance	—	9,977	—
Proceeds from treasury stock from stock based benefit plans	23,387	5,899	3,695
Cash dividends	(1,811)	(1,751)	(1,808)
Net cash (used for) provided by financing activities	(18,539)	9,176	(44,054)
Effect of changes in currency exchange rates	8,409	(1,413)	4,474
Increase (decrease) in cash	24,929	51,118	(34,739)
Cash, beginning of year	70,328	19,210	53,949
Cash, end of year	$ 95,257	$ 70,328	$ 19,210

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

In thousands	Comprehensive Income (Loss)	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Loss
Balance, December 31, 2001		$ 654	$272,674	$(277,489)	$278,569	$ 538	$ (29,675)
Cash dividends ($0.04 dividend per share)					(1,808)		
Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax			108	3,587			
Compensatory stock granted through a Rabbi Trust				268		(268)	
Net loss	$ (45,479)				(45,479)		
Translation adjustment	3,165						3,165
Unrealized gains on derivatives designated and qualified as cash flow hedges, net of $755 tax	1,538						1,538
Additional minimum pension liability, net of $(4,551) tax	(7,120)						(7,120)
Total comprehensive loss	$ (47,896)						
Balance, December 31, 2002		$ 654	$272,782	$(273,634)	$231,282	$ 270	$ (32,092)
Cash dividends ($0.04 dividend per share)					(1,751)		
Stock issuance		8	9,969				
Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax			121	5,778			
Compensatory stock granted through a Rabbi Trust				270		(270)	
Net income	$ 22,703				22,703		
Translation adjustment	13,962						13,962
Unrealized gains on foreign exchange contracts, net of $135 tax	235						235
Unrealized gains on derivatives designated and qualified as cash flow hedges, net of $496 tax	799						799
Additional minimum pension liability, net of $(728) tax	(2,793)						(2,793)
Total comprehensive income	$ 34,906						
Balance, December 31, 2003		$ 662	$282,872	$(267,586)	$252,234	$ —	$ (19,889)
Cash dividends ($0.04 dividend per share)					(1,811)		
Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax			3,822	19,565			
Net income	$ 32,445				32,445		
Translation adjustment	10,346						10,346
Unrealized gains on foreign exchange contracts, net of $1,925 tax	3,350						3,350
Unrealized gains on derivatives designated and qualified as cash flow hedges, net of $119 tax	207						207
Additional minimum pension liability, net of $(2,178) tax	(3,791)						(3,791)
Total comprehensive income	$ 42,557						
Balance, December 31, 2004		$ 662	$286,694	$(248,021)	$282,868	$ —	$ (9,777)

The accompanying notes are an integral part of these statements

1. BUSINESS

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in certain markets throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles.

Wabtec is a global company with operations in nine countries. In 2004, about 78 percent of the Company's revenues came from its North American operations, but Wabtec also sold products or services in 82 countries around the world.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Allowance for Doubtful Accounts The allowance for doubtful accounts receivable reflects our best estimate of probable losses inherent in our receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence. The allowance for doubtful accounts was $2 million and $4.5 million as of December 31, 2004 and 2003, respectively.

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

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

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

Intangible Assets The Company adopted SFAS No. 142 effective January 1, 2002, and, as a result, goodwill and other intangible assets with indefinite lives are no longer amortized. Other intangibles (with definite lives) are amortized on a straight-line basis over their estimated economic lives. Goodwill and indefinite lived intangible assets are reviewed annually for impairment and more frequently when indicators of impairment are present. Amortizable intangible assets are reviewed for impairment when indicators of impairment are present.

The evaluation of impairment involves comparing the current fair value of the business to the recorded value (including goodwill). The Company uses a combination of a guideline public company market approach and a discounted cash flow model ("DCF model") to determine the current fair value of the business. A number of significant assumptions and estimates are involved in the application of the DCF model to forecasted operating

cash flows, including markets and market share, sales volume and pricing, costs to produce and working capital changes. Management considers historical experience and all available information at the time the fair values of its business are estimated. However, actual fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill.

Warranty Costs Warranty costs are accrued based on management's estimates of repair or upgrade costs per unit and historical experience. Warranty expense was $14.9 million, $10.5 million and $17.6 million for 2004, 2003 and 2002, respectively. Warranty reserves were $17.4 million and $13.3 million at December 31, 2004 and 2003, respectively.

Deferred Compensation Agreements In May 1998, a consensus on Emerging Issues Task Force Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested" ("EITF 97-14"), was issued. The adoption of EITF 97-14 required the Company to record as treasury stock the historical value of the Company's stock maintained in its deferred compensation plans.

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

Stock-Based Compensation Effective January 1, 2003, the Company adopted SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternate methods of transition to SFAS No. 123's fair value method of accounting for stock-based compensation. The statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures about the method of accounting for compensation cost associated with employee stock option plans, as well as the effect of the method used on reported results. The Company adopted the disclosure requirements of SFAS No. 148 and has not changed its method for measuring the compensation cost of stock options.

The Company continues to use the intrinsic value based method and does not recognize compensation expense for the issuance of options with an exercise price equal to or greater than the market price of the stock at the time of grant. As a result, the adoption of SFAS No. 148 had no impact on our results of operations or financial position.

Had compensation expense for these plans been determined based on the fair value at the grant dates for awards, the Company's net income and earnings per share would be as set forth in the following table. For purposes of pro forma disclosures, the estimated fair value is amortized to expense over the options' vesting period.

In thousands, except per share	For the year ended December 31, 2004	2003	2002
Net income (loss)			
As reported	$32,445	$22,703	$(45,479)
Stock based compensation under FAS123, net of tax	1,722	2,291	2,680
Pro forma	30,723	20,412	(48,159)
Basic earnings (loss) per share			
As reported	$ 0.72	$ 0.52	$ (1.05)
Pro forma	$ 0.68	0.47	(1.11)
Diluted earnings (loss) per share			
As reported	$ 0.71	$ 0.52	$ (1.04)
Pro forma	0.67	0.46	(1.10)

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

	For the year ended December 31, 2004	2003	2002
Dividend yield	.3%	.3%	.3%
Risk-free interest rate	4.9%	5.2%	5.6%
Stock price volatility	46.1	46.1	46.7
Expected life *(years)*	5.0	5.0	5.0

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

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 133, and as amended by SFAS 138, "Accounting for Derivative Instruments and Hedging Activities" effective January 1, 2001. In the application, the Company has concluded its interest rate swap contracts qualify for "special cash flow hedge accounting" which permit recording the fair value of the swap and corresponding adjustment to other comprehensive income (loss) on the balance sheet. The interest rate swaps were terminated in 2004. As a result of entering into these interest rate swaps, the Company incurred $262,000 in additional interest expense in 2004.

The Company also entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with a counterparty to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date the Company can either take delivery of the currency or settle on a net basis. All outstanding forward contracts are for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). As of December 31, 2004, the Company had forward contracts with a notional value of

$59 million CAD (or $43.5 million U.S.), with an average exchange rate of $0.74 USD per $1 CAD, resulting in the recording of a current asset and an increase in comprehensive income of $3.6 million, net of tax.

Foreign Currency Translation Assets and liabilities of foreign subsidiaries, except for the Company's Mexican operations whose functional currency is the U.S. Dollar, are translated at the rate of exchange in effect on the balance sheet date while income and expenses are translated at the average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from transactions, and the translation of financial statements are recorded in the Company's consolidated financial statements based upon the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." The effects of currency exchange rate changes on intercompany transactions and balances of a long-term investment nature are accumulated and carried as a component of shareholders' equity. The effects of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts are charged or credited to earnings. Foreign exchange loss was $1.2 million, $2.8 million and $1.2 million for 2004, 2003 and 2002, respectively.

Other Comprehensive Income (Loss) Comprehensive income (loss) is defined as net income and all other non-owner changes in shareholders' equity. The Company's accumulated other comprehensive income (loss) consists of foreign currency translation adjustments, unrealized gains and losses on derivatives designated and qualified as cash flow hedges, foreign currency hedges and pension related adjustments.

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

The Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other output-based measures, as appropriate, are used to measure the progress of individual contracts towards completion. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as known. Provisions are made currently for estimated losses on uncompleted contracts. Certain pre-production costs relating to long term production and supply contracts have been deferred and will be amortized over the life of the contract. Deferred pre-production costs were $5.3 million and $3.4 million at December 31, 2004 and 2003, respectively.

Significant Customers and Concentrations of Credit Risk The Company's trade receivables are primarily from rail and transit industry original equipment manufacturers, Class I railroads, railroad carriers and commercial companies that utilize rail cars in their operations, such as utility and chemical companies. No one customer accounted for more than 10% of the Company's consolidated net sales in 2004 and 2003. One customer, in the transit group, accounted for 11% of the Company's consolidated net sales in 2002.

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

Research and Development Research and development costs are charged to expense as incurred. For the years ended December 31, 2004, 2003 and 2002, the Company incurred costs of approximately $33.8 million, $32.9 million and $33.6 million, respectively.

Employees As of December 31, 2004, approximately 39% of the Company's workforce was covered by collective bargaining agreements. These agreements are generally effective through 2005, 2006 and 2007.

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

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

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

Recent Accounting Pronouncements Effective December 31, 2003, Wabtec adopted SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Post-retirement Benefits—an Amendment of FASB Statements No. 87, 88 and 106" for its U.S. pension plans. This standard requires additional disclosures about an employer's pension plans and postretirement benefits such as: the type of plan assets, investment strategy, measurement date, plan obligations, cash flows, and components of net periodic benefit costs recognized during interim periods. See Note 10 to the Consolidated Financial Statements for the required additional disclosures.

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs – an Amendment of ARB No. 43, Chapter 4." This standard provides clarification that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be recognized as current period charges. Additionally, this standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this standard are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the effect of this standard on the Company's financial statements and results of operations.

SFAS No. 123 (revised 2004) "Share-Based Payment" was issued in December 2004. This standard requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. The effective date is the first interim reporting period beginning after June 15, 2005. Wabtec is currently evaluating pricing models and the transition provisions of this standard and will begin expensing stock options in the third quarter of 2005.

In December 2004, the FASB issued FSP No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP 109-2 provides guidance under SFAS No. 109, "Accounting for Income Taxes" with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the impact of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The Company has not yet completed evaluating the impact of the repatriation provisions. Accordingly, as provided for in FSP 109-2, the Company has not adjusted its tax expense or deferred tax liability to reflect the repatriation provisions of the Job Act.

3. DISCONTINUED OPERATIONS

On November 1, 2001, the Company completed the sale of certain assets to GE Transportation Systems (GETS) for $238 million in cash. The assets sold primarily included locomotive aftermarket products and services for which Wabtec was not the original equipment manufacturer. Under the terms of the sales agreement, the Company has agreed to indemnify GETS for, among other things, certain potential third party, off-site environmental cleanup or remediation costs. At this time, the Company is not aware of any potential liability in connection with this sale of assets. The Company reported a $48.7 million after tax gain on the sale in 2001.

In the fourth quarter of 2001, the Company decided to exit other businesses and put these businesses up for sale. The net assets of those businesses were written down to their estimated realizable value based on a multiple of earnings. The Company reported a $7.2 million after tax loss on the write-down of these entities.

As of December 31, 2003, one of the businesses had not sold. The Company actively solicited but did not receive any reasonable offers to purchase the asset and, in response, had reduced the price. The asset is no longer being actively marketed and as a result, the Company reclassed the business to continuing operations in the fourth quarter of 2003. Such reclassification had no material impact on the financial statements.

In accordance with SFAS 144, the operating results of these businesses have been classified as discontinued operations for all years presented and are summarized as of December 31, as follows:

	For the year ended December 31,		
In thousands	**2004**	**2003**	**2002**
Net sales	$—	$6,593	$11,158
Income before income taxes	550	710	593
Income tax expense	201	259	190
Income from discontinued operations	$349	$ 451	$ 403

4. SUPPLEMENTAL CASH FLOW DISCLOSURES

	For the year ended December 31,		
In thousands	**2004**	**2003**	**2002**
Interest paid during the year	$13,203	$6,478	$18,111
Income taxes paid during the year	7,376	8,185	34,452
Business acquisitions:			
Fair value of assets acquired	$ —	$ —	$ 1,654
Liabilities assumed	—	—	—
Cash paid	—	—	1,654
Less cash acquired	—	—	—
Net cash paid	$ —	$ —	$ 1,654
Noncash investing and financing activities:			
Notes payable	$ —	$3,198	$ —
Deferred compensation	—	270	268
Treasury stock	—	(270)	(268)

5. MERGERS AND ACQUISITIONS

The Company made the following acquisitions in 2002 and 2005:

i) In February 2002, the Company purchased the minority interest of a business in India that the Company did not already own for $1.7 million. This acquisition was accounted for under the purchase method. Accordingly, the results of operations of the acquisition are included in the Company's financial statements prospectively from the acquisition date. The excess of the purchase price over the fair value of identifiable net assets was approximately $664,000 and was allocated to goodwill. Effective January 1, 2002, goodwill was no longer amortized upon adoption of SFAS No. 142.

ii) On February 1, 2005, the Company completed the acquisition of assets of Rütgers Rail S.p.A. The acquisition was accounted for as a purchase and accordingly, the purchase price will be allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results will be included in the consolidated statement of operations from the acquisition date forward. The new company formed to hold the newly purchased assets of Rütgers Rail S.p.A. is named CoFren S.r.l. ("CoFren"). CoFren has become the leading manufacturer of brake shoes, disc pads and interior trim components for rail applications in Europe. The purchase price was $36.6 million in cash. The purchase price is subject to adjustment based on a calculation of net worth as defined in the Sale and Purchase agreement. The adjustment is to be completed within 90 business days of the acquisition date.

6. INVENTORY

The components of inventory, net of reserves, were:

	December 31,	
In thousands	2004	2003
Raw materials	$34,280	$28,711
Work-in-process	45,628	45,559
Finished goods	17,084	17,539
Total inventory	$96,992	$91,809

7. PROPERTY, PLANT & EQUIPMENT

The major classes of depreciable assets are as follows:

	December 31,	
In thousands	2004	2003
Machinery and equipment	$ 248,808	$ 249,604
Buildings and improvements	85,676	76,290
Land and improvements	6,153	6,435
Locomotive leased fleet	311	290
PP&E	340,948	332,619
Less: accumulated depreciation	(189,987)	(178,780)
Total	$ 150,961	$ 153,839

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

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

Depreciation expense was $22.8 million, $21 million and $20.2 million for 2004, 2003 and 2002, respectively. During 2004, the Company wrote down $1.3 million of various assets, a portion of which were subsequently sold in 2005.

8. INTANGIBLES

The Company has adopted SFAS No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002. Under its provisions, all goodwill and other intangible assets with indefinite lives are no longer amortized under a straight-line basis over the assets estimated useful life. Instead, they are subject to periodic assessments for impairment by applying a fair-value-based test. In 2002, the Company completed the Phase I and Phase II assessments and wrote down the carrying value of goodwill by $90 million ($83.2 million for the Freight Group and $6.8 million for the Transit Group), resulting in a non-cash after-tax charge of $61.7 million. The fair value of these reporting units was determined using a combination of discounted cash flow analysis and market multiples based upon historical and projected financial information. The Company also performed the required impairment test in 2004 and 2003, which resulted in no additional impairment charge. Goodwill still remaining on the balance sheet is $113.5 million and $109.5 million at December 31, 2004 and 2003, respectively.

As of December 31, 2004 and 2003, the Company's trademarks had a net carrying amount of $19.6 million and the Company believes these intangibles have an indefinite life. Intangible assets of the Company, other than goodwill and trademarks, consist of the following:

	December 31,	
In thousands	2004	2003
Patents and other, net of accumulated amortization of $22,459 and $21,053	$ 11,269	$ 13,675
Covenants not to compete, net of accumulated amortization of $8,263 and $9,437	61	137
Intangible pension asset	8,987	4,401
Total	$ 20,317	$ 18,213

In connection with the adoption of SFAS No. 142, the Company reassessed the useful lives and the classification of its identifiable assets and determined that they continue to be appropriate. The weighted average useful life of patents was 13 years and of covenants not to compete was five years.

Amortization expense for intangible assets was $2.4 million, $3.4 million and $4 million for the years ended December 31, 2004, 2003, and 2002, respectively. Amortization expense for the five succeeding years is as follows (in thousands):

2005	$2,303
2006	$2,053
2007	$1,957
2008	$1,921
2009	$1,766

The change in the carrying amount of goodwill by segment for the year ended December 31, 2004 is as follows:

In thousands	Freight Group	Transit Group	Total
Balance at December 31, 2003	92,570	16,880	109,450
Foreign currency impact	2,364	1,652	4,016
Balance at December 31, 2004	$94,934	$18,532	$ 113,466

9. LONG-TERM DEBT

Long-term debt consisted of the following:

In thousands	December 31, 2004	December 31, 2003
Revolving credit agreement	$ —	$ 40,000
6.875% Senior notes	150,000	150,000
Other	107	225
Total	$ 150,107	$ 190,225
Less—current portion	—	—
Long-term portion	$ 150,107	$ 190,225

Refinancing Credit Agreement

In January 2004, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This “Refinancing Credit Agreement” provides a $175 million five-year revolving credit facility expiring in January 2009. At December 31, 2004, the Company’s available bank borrowing capacity, net of $21.9 million of letters of credit, was approximately $153.1 million, subject to certain financial covenant restrictions.

Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. The maximum credit agreement borrowings, average credit agreement borrowings and weighted-average contractual interest rate on credit agreement borrowings were $40 million, $36.7 million and 2.9%, respectively for 2004. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. On December 31, 2003, the notional value of interest rate swaps outstanding totaled $40 million and effectively changed the Company’s interest rate on bank debt at December 31, 2003 from a variable rate to a fixed rate of 3.98%. The interest rate swap agreements were terminated in 2004 in conjunction with the $40 million repayment of the revolving credit agreement.

Under the Refinancing Credit Agreement, the Company may elect a base interest rate or an interest rate based on the London Interbank Offered Rates of Interest (“LIBOR”). The base interest rate is the greater of LaSalle Bank National Association’s prime rate or the federal funds effective rate plus 0.5% per annum. The LIBOR rate is based on LIBOR plus a margin that ranges from 100 to 200 basis points depending on the Company’s consolidated total indebtedness to cash flow ratios. The current margin is 100 basis points.

The Refinancing Credit Agreement limits the Company’s ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The

Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations and sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; capital expenditures; and imposes a minimum interest expense coverage ratio and a maximum debt to cash flow ratio.

The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and "change of control" of the Company.

6.875% Senior Notes Due August 2013

In August 2003, the Company issued $150 million of Senior Notes due in 2013 ("the Notes"). The Notes were issued at par. Interest on the Notes will accrue at a rate of 6.875% per annum and will be payable semi-annually on January 31 and July 31 of each year, commencing on January 31, 2004. The proceeds were used to repay debt outstanding under the Company's existing credit agreement, and for general corporate purposes.

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

Scheduled principal repayments of outstanding loan balances required as of December 31, 2004 are as follows:

In thousands	
2005	$ —
2006	107
2007	—
2008	—
2009	—
Future years	150,000
Total	$ 150,107

Extinguishment of Other Borrowings

In June 1995, the Company issued $100 million of 9.375% Senior Notes due in 2005 (the "1995 Notes"). In January 1999, the Company issued an additional $75 million of 9.375% Senior Notes due in 2005 (the "1999 Notes"). The 1995 Notes and the 1999 Notes were redeemed at par (face) on July 8, 2002 through the use of cash on hand and additional borrowings under the credit agreement. This redemption resulted in a non-cash loss of $1.9 million relating to a write-off of deferred financing costs.

10. EMPLOYEE BENEFIT PLANS

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

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

The Company uses a December 31 measurement date for the U.S. and Canadian plans. The U.K. plan uses an October 31 measurement date.

Obligations and Funded Status

	For the years ended December 31,			
	Pension Plans		Postretirement Plans	
In thousands	2004	2003	2004	2003
Defined Benefit Plans				
Change in projected benefit obligation				
Obligation at beginning of year	$(113,117)	$ (92,751)	$(29,090)	$(23,700)
Service cost	(2,721)	(2,425)	(583)	(330)
Interest cost	(7,161)	(6,474)	(1,975)	(1,715)
Participant contributions	(528)	(401)	—	—
Plan amendment	(2,418)	—	18,416	—
Actuarial loss	(9,827)	(7,361)	(35,261)	(5,495)
Benefits paid	6,074	5,666	3,631	2,150
Expenses paid	71	372	—	—
Effect of currency rate changes	(6,025)	(9,743)	(451)	—
Obligation at end of year	$(135,652)	$(113,117)	$(45,313)	$(29,090)
Change in plan assets				
Fair value of plan assets at beginning of year	$ 86,581	$ 67,600	—	—
Actual gain on plan assets	6,380	11,834	—	—
Employer contribution	12,677	5,554	—	—
Participant contributions	528	401	—	—
Benefits paid	(6,074)	(5,666)	—	—
Administrative expenses	(548)	(1,081)	—	—
Effect of currency rate changes	4,884	7,939	—	—
Fair value of plan assets at end of year	$ 104,428	$ 86,581	—	—
Funded status				
Funded status at year end	$ (31,224)	$ (26,536)	(45,313)	(29,090)
Unrecognized net actuarial loss	40,823	29,213	40,847	8,961
Unrecognized prior service cost (credit)	6,485	4,237	(16,423)	22
Unrecognized transition obligation	3,458	3,084	—	194
Effect of currency exchange rates	—	1,399	—	—
Prepaid (accrued) benefit cost	$ 19,542	$ 11,397	$(20,889)	$(19,913)
Amounts recognized in the statement of financial position include:				
Prepaid pension cost	$ 411	$ 323	$ —	$ —
Reserve for postretirement and pension benefits	(21,640)	(19,142)	(20,889)	(19,913)
Intangible asset	8,987	4,401	—	—
Accumulated other comprehensive loss	31,784	25,815	—	—
Prepaid (accrued) benefit cost	$ 19,542	$ 11,397	$(20,889)	$(19,913)

The projected benefit obligation for all defined benefit pension plans was $135.7 million and $113.1 million at December 31, 2004 and 2003, respectively.

The accumulated benefit obligation for all defined benefit pension plans was $126.1 million and $106.2 million at December 31, 2004 and 2003, respectively.

The aggregate projected benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were $135.7 million and $104.4 million, respectively, as of December 31, 2004; and $113.1 million and $86.6 million, respectively, as of December 31, 2003. The aggregate accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $122 million and $100.2 million, respectively, as of December 31, 2004; and $70.2 million and $49.6 million, respectively, as of December 31, 2003.

The components of prepaid (accrued) benefit costs by country are as follows:

In thousands	2004	2003
U.S. plan	$ 7,782	$ 1,539
Canadian plans	12,043	10,103
U.K. plan	(282)	(245)
Prepaid (accrued) benefit cost	$19,543	$11,397

Components of Net Periodic Benefit Costs

	Pension Plans			Postretirement Plans		
In thousands	2004	2003	2002	2004	2003	2002
Service cost	$ 2,721	$ 2,425	$ 2,658	$ 583	$ 330	$ 232
Interest cost	7,161	6,474	6,008	1,975	1,715	1,447
Expected return on plan assets	(6,949)	(6,576)	(6,591)	—	—	—
Net amortization/deferrals	2,525	1,406	617	1,990	489	19
Net periodic benefit cost	$ 5,458	$ 3,729	$ 2,692	$ 4,548	$ 2,534	$ 1,698

An increase in the minimum pension liability resulted in a charge to shareholders' equity, net of tax, of $3.8 million in 2004 and $2.8 million in 2003.

Assumptions

Weighted average assumptions used to determine benefit obligations are as follows:

	Pension Plans		Postretirement Plans	
	2004	2003	2004	2003
Discount rate	5.89%	6.25%	6%	6.25%
Rate of compensation increase	3.41%	3.79%	NA	NA

The discount rate is based on settling the pension obligation with high grade, high yield corporate bonds, and the rate of compensation increase is based on actual experience.

Weighted average assumptions used to determine the net periodic benefit costs are as follows:

	Pension Plans			Postretirement Plans		
	2004	2003	2002	2004	2003	2002
Discount rate	6.25%	6.57%	6.75%	6.25%	6.25%	6.75%
Expected long-term rate of return	7.62%	7.44%	8.25%	NA	NA	NA
Rate of compensation increase	3.79%	4%	4%	NA	NA	NA

The expected return on plan assets is based on historical performance as well as expected future rates of return on plan assets considering the current investment portfolio mix and the long-term investment strategy.

The assumed health care cost trend rate grades from an initial rate of 9.06% to an ultimate rate of 5% in six years. A 1% increase in the assumed health care cost trend rate will increase the amount of expense recognized for the postretirement plans by approximately $441,000 for 2005, and increase the service and interest cost components of the accumulated postretirement benefit obligation by approximately $6.7 million. A 1% decrease in the assumed health care cost trend rate will decrease the service and interest cost components of the expense recognized for the postretirement plans by approximately $351,000 for 2005, and decrease the accumulated postretirement benefit obligation by approximately $5.5 million.

Pension Plan Assets

The composition of all plan assets consists primarily of equities, corporate bonds, governmental notes and temporary investments. This Plan's asset allocations at the respective measurement dates for 2004 by asset category are as follows:

Asset Category	%
Equity securities	61%
Debt securities	34%
Other, including cash equivalents	5%
Total	100%

Investment policies are determined by the respective Plan's Pension Committee and set forth in its Investment Policy. Pursuant to the Investment Policy for the U.S., the investment strategy is to use passive index funds managed by the Bank of New York. The target asset allocation and composite benchmarks for U.S. plans include the following:

Asset Allocation		Composite Benchmark	
Category	%	Benchmark	%
Bonds	50%	Lehman Aggregate	50%
Large Cap Stocks	35%	S&P 500	35%
International Stocks	10%	MSCI-EAFE	10%
Small Cap Stocks	5%	Russell 2000	5%
	100%		100%

The Company is evaluating allocation policies for its plans in Canada and the U.K.

Cash Flows

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense, which is primarily based on the projected unit credit method applied in the accompanying financial statements. The Company expects to contribute $9.7 million to the pension plan during 2005 and expects this level of funding to continue in future periods. Rebalancing of the asset allocation occurs on a quarterly basis.

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

In thousands	Pension benefits	Post-retirement benefits
Year ended December 31,		
2005	$ 6,826	$ 2,408
2006	6,725	2,478
2007	7,133	2,519
2008	7,244	2,579
2009	7,415	2,662
2010 through 2014	42,893	13,197
Total	$78,236	$ 25,843

In May 2004, the FASB issued FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP FAS 106-2). This Act was signed into law by the President on December 8, 2003 and introduces a prescription drug benefit plan under Medicare Part D as well as a federal subsidy to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. FSP 106-2 provides guidance on how companies should account for the impact of the Act on their postretirement health care plans. To encourage employers to retain or provide postretirement drug benefits, beginning in 2006 the federal government will provide non-taxable subsidy payments to employers that sponsor prescription drug benefits to retirees that are actuarially equivalent to the Medicare benefit. FSP 106-2 is effective for interim or annual financial statements beginning after June 15, 2004. The adoption of FSP 106-2 did not have a significant impact on the Company's financial position or results of operations.

Defined Contribution Plans

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

	For the year ended December 31,		
In thousands	2004	2003	2002
Multi-employer pension and health & welfare plans	$ 571	$ 1,531	$ 1,310
401(k) savings and other defined contribution plans	5,707	6,828	6,929
Total	$ 6,278	$ 8,359	$ 8,239

The 401(k) savings plan is a participant directed defined contribution plan that holds shares of the Company's stock. At December 31, 2004 and 2003, the plan held on behalf of its participants about 695,000 shares with a market value of $14.8 million, and 776,000 shares with a market value of $13.2 million, respectively.

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

11. INCOME TAXES

The Company is responsible for filing consolidated U.S., foreign and combined, unitary or separate state income tax returns. The Company is responsible for paying the taxes relating to such returns, including any

subsequent adjustments resulting from the redetermination of such tax liabilities by the applicable taxing authorities. The components of the income (loss) from continuing operations before provision for income taxes for the Company's domestic and foreign operations for the years ended December 31 are provided below:

In thousands	For the year ended December 31, 2004	2003	2002
Domestic	$29,852	$35,470	$12,226
Foreign	13,005	(428)	11,678
Income from continuing operations	$42,857	$35,042	$23,904

No provision has been made for U.S., state, or additional foreign taxes related to undistributed earnings of $57 million of foreign subsidiaries which have been or are intended to be permanently re-invested.

The 2004 Jobs Creation Act and FSP 109-2 state that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for applying SFAS No. 109. The Company has not yet completed evaluating the impact of the repatriation provisions. Accordingly as provided for in FSP 109-2, the Company has not adjusted its tax expense or deferred tax liability to reflect repatriation provisions of the 2004 Jobs Creation Act.

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

In thousands	For the year ended December 31, 2004	2003	2002
Current taxes			
Federal	$ (8,676)	$ 763	$ 609
State	714	1,470	(2,421)
Foreign	3,723	1,993	2,876
	$ (4,239)	$ 4,226	$ 1,064
Deferred taxes			
Federal	13,796	11,525	(14,788)
State	(284)	821	(4,364)
Foreign	1,689	(3,522)	(2,716)
	15,201	8,824	(21,868)
Total provision (credit)	$10,962	$13,050	$(20,804)

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

In thousands	For the year ended December 31, 2004	2003	2002
Continuing operations	10,761	$12,790	$ 7,594
Income (loss) from discontinued operations—	201	260	(59)
Cumulative effect of accounting change for goodwill	—	—	(28,339)
Total provision (credit)	$10,962	$13,050	$(20,804)

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

In thousands	For the year ended December 31, 2004	2003	2002
U. S. federal statutory rate	35.0%	35.0%	35.0%
State taxes	0.2	2.4	3.6
Adjustment to prior year matters	(11.4)	(7.6)	—
Change in valuation allowance	0.8	7.4	—
Deferred rate/balance adjustment	2.7	2.7	—
Foreign	0.2	1.5	0.3
Foreign tax credits	—	(2.5)	(2.1)
Research and development credit	(2.3)	(2.4)	(3.3)
Other, net	(0.1)	—	(1.7)
Effective rate	25.1%	36.5%	31.8%

The overall effective income tax rate includes a tax benefit of $4.9 million and $2.7 million in 2004 and 2003 respectively, which is primarily related to the reversal of certain items that had previously been provided for and that have been closed from further regulatory examination.

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

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

In thousands	December 31, 2004	2003
Deferred income tax assets (liabilities):		
Accrued expenses and reserves	$ 5,637	$ 4,342
Deferred comp/employee benefits	6,054	4,439
Pension	18,737	15,491
Inventory	3,805	4,388
Warranty reserve	3,301	3,224
Restructuring reserve	—	1,026
Environmental reserve	591	408
Federal net operating loss	1,133	—
State net operating loss	8,253	7,193
Plant, Property & Equipment	(14,523)	(12,470)
Intangibles	4,620	13,836
Federal credits	4,349	5,615
State credits	614	—
Foreign net operating loss	8,487	7,164
Foreign deferred net items	466	(4,028)
Gross deferred income tax assets	51,524	50,628
Valuation allowance	(14,449)	(18,487)
Total deferred income tax assets	$ 37,075	$ 32,141

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has recorded a valuation allowance of $14.4 million for certain net operating loss carryforwards and deferred tax assets anticipated to produce no tax benefit. State and foreign net operating loss carryforwards exist in the amount of $159 million and $24 million, respectively, and are set to expire in various periods from 2006 to 2024. A valuation allowance exists and/or has been established for certain of these net operating loss carryforwards.

Federal tax credits exist of approximately $4.3 million which are comprised of Research and Experimentation credits available through 2024 and Alternative Minimum Tax credits available indefinitely. State tax credits of approximately $614,000 are available and consist of various Machinery & Equipment, Research and Experimentation, and Jobs related credits.

12. EARNINGS PER SHARE

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

In thousands, except per share	For the year ended December 31, 2004	2003	2002
Basic			
Income from continuing operations before cumulative effect of accounting change applicable to common shareholders	$32,096	$22,252	$16,310
Divided by:			
Weighted average shares outstanding	44,993	43,538	43,291
Basic earnings from continuing operations before cumulative effect of accounting change per share	$ 0.71	$ 0.51	$ 0.37
Diluted			
Income from continuing operations before cumulative effect of accounting change applicable to common shareholders	$32,096	$22,252	$16,310
Divided by the sum of:			
Weighted average shares outstanding	44,993	43,538	43,291
Assumed conversion of dilutive stock options	794	436	326
Diluted shares outstanding	45,787	43,974	43,617
Diluted earnings from continuing operations before cumulative effect of accounting change per share	$ 0.70	$ 0.51	$ 0.37

Options to purchase approximately 589,000, 646,000 and 2.1 million shares of Common Stock were outstanding in 2004, 2003 and 2002, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price exceeded the average market price of the common shares.

13. STOCK-BASED COMPENSATION PLANS

Stock Options Under the 2000 Stock Incentive Plan (the 2000 Plan), the Company may grant options to employees for an initial amount of 1.1 million shares of Common Stock. This amount is subject to annual modification based on a formula. Under the formula, 1.5% of total common shares outstanding at the end of the preceding fiscal year are added to shares available for grant under the 2000 Plan. Based on the adjustment, the Company had approximately 1.4 million shares available for 2004 grants and has available approximately 1.1

million shares through the end of fiscal 2005. The shares available for grants on any given date may not exceed 15% of Wabtec's total common shares outstanding. Generally, the options become exercisable over a three-year vesting period and expire ten years from the date of grant.

As part of a long-term incentive program, in 1998, the Company granted options to purchase up to 500,020 shares, to certain executives under a plan that preceded the 2000 Plan. The option price is $20 per share. The options vest 100% after eight years and are subject to accelerated vesting after three years if the Company achieves certain earnings targets as established by the compensation committee of the board of directors. No further grants may be made under this plan.

The Company also has a non-employee directors' stock option plan under which 500,000 shares of Common Stock are reserved for issuance. Through year-end 2004, the Company granted nonqualified stock options to non-employee directors to purchase a total of 131,000 shares.

Employee Stock Purchase Plan In 1998, the Company adopted an employee discounted stock purchase plan (DSPP). The DSPP had 500,000 shares available for issuance. Participants can purchase the Company's common stock at 85% of the lesser of fair market value on the first or last day of each offering period. Stock outstanding under this plan at December 31, 2004 was 209,600 shares.

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

	2004		2003		2002	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Beginning of year	5,084,176	$ 13.08	4,977,296	$ 13.44	4,599,935	$ 13.76
Granted	245,000	16.37	718,500	10.85	835,500	12.15
Exercised	(1,434,563)	12.58	(360,883)	11.77	(192,779)	11.60
Canceled	(5,996)	14.35	(250,737)	16.06	(265,360)	15.41
End of year	3,888,617	$ 13.47	5,084,176	$ 13.08	4,977,296	$ 13.44
Exercisable at end of year	3,082,554		3,834,069		3,771,366	
Available for future grant	1,068,149		1,394,818		1,343,893	
Weighted average fair value of options granted during the year	$ 6.61		$ 4.34		$ 5.20	

The following table summarizes information about stock options outstanding at December 31, 2004:

Range of Exercise Prices	Number Outstanding As of 12/31/04	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable As of 12/31/04
9.54 – 9.54	337,000	5.9	9.54	337,000
9.88 – 10.86	999,010	6.2	10.77	620,399
11.00 – 12.98	1,062,253	4.9	12.20	838,470
13.18 – 13.98	281,218	6.5	13.25	272,549
14.00 – 14.00	330,700	0.6	14.00	330,700
14.63 – 19.91	343,000	6.3	16.79	148,000
20.00 – 20.00	404,200	2.9	20.00	404,200
$22.38 – $29.61	131,236	1.7	24.88	131,236
	3,888,617	4.9	$ 13.47	3,082,554

14. OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss were:

In thousands	December 31, 2004	December 31, 2003
Foreign currency translation adjustment	$ 6,821	$ (3,525)
Unrealized losses on derivatives designated and qualified as cash flow hedges, net of tax of $— and $(119)	—	(207)
Unrealized gains on foreign exchange contracts, net of tax of $2,060 and $135	3,585	235
Additional minimum pension liability, net of tax of $(11,601) and $(9,423)	(20,183)	(16,392)
Total accumulated other comprehensive loss	$ (9,777)	$(19,889)

15. OPERATING LEASES

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

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

Total net rental expense charged to operations in 2004, 2003, and 2002 was $7.8 million, $6.9 million and $6.2 million, respectively. Certain of the Company's equipment rental obligations under operating leases pertain to locomotives, which are subleased to customers under both short-term and long-term agreements. The amounts above are shown net of sublease rentals of $2.2 million, $2.8 million and $2.8 million for the years 2004, 2003 and 2002, respectively.

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

In thousands	Real Estate	Equipment	Sublease Rentals	Total
2005	$5,262	$ 4,824	$(2,754)	$7,332
2006	5,093	4,905	(2,611)	7,387
2007	4,798	2,597	(1,830)	5,565
2008	4,638	2,382	(1,567)	5,453
2009	3,500	184	—	3,684
2010 and after	6,729	492	—	7,221

16. GUARANTEES

In 2001, the Company sold the operating assets and liabilities of a non-core business unit to that business unit's management team. As part of the sale, Wabtec guaranteed approximately $3 million of bank debt of the buyer, which was used for the purchase financing. This debt was refinanced in June 2004, and Wabtec's guarantee was reduced to $1.3 million. The Company has no reason to believe that this debt will not be repaid or refinanced.

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

In thousands	For the year ended December 31, 2004	For the year ended December 31, 2003
Balance at beginning of period	$ 13,307	$ 17,407
Warranty expense	14,914	10,489
Warranty payments	(10,808)	(14,589)
Balance at end of period	$ 17,413	$ 13,307

17. PREFERRED STOCK

The Company's authorized capital stock includes 1,000,000 shares of preferred stock. The Board of Directors has the authority to issue the preferred stock and to fix the designations, powers, preferences and rights of the shares of each such class or series, including dividend rates, conversion rights, voting rights, terms of redemption and liquidation preferences, without any further vote or action by the Company's shareholders. The rights and preferences of the preferred stock would be superior to those of the common stock. At December 31, 2004 and 2003 there was no preferred stock issued or outstanding.

18. COMMITMENTS AND CONTINGENCIES

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

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

Actions have been filed against the Company and certain of its affiliates in various jurisdictions across the United States by persons alleging bodily injury as a result of exposure to asbestos-containing products. Since 2000, the number of such claims has increased. Most of these claims have been made against our wholly-owned subsidiary, Railroad Friction Products Corporation (RFPC), and are based on a product sold by RFPC before we acquired American Standard, Inc.'s (ASI) 50% interest in RFPC in 1990. We acquired the remaining interest in RFPC in 1992. These claims include a suit against RFPC and its insurers seeking coverage under RFPC's insurance policies, and a claim against the Company contending that the Company assumed ASI's liability for asbestos claims brought against ASI that ASI alleges claim exposure to RFPC's product.

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

BOISE, IDAHO

The Company is subject to a RCRA Part B Closure Permit ("the Permit") issued by the Environmental Protection Agency (EPA) and the Idaho Department of Health and Welfare, Division of Environmental Quality relating to the monitoring and treatment of groundwater contamination on, and adjacent to, the MotivePower Industries (Boise, Idaho) facility. In compliance with the Permit, the Company has completed the first phase of an accelerated plan for the treatment of contaminated groundwater, and continues onsite and offsite monitoring for hazardous constituents. An additional $970,000 was accrued in 2004 based on our refined estimates of ongoing monitoring costs. In total, the Company has accrued $1.3 million at December 31, 2004, the estimated remaining costs for remediation and monitoring. The Company was in compliance with the Permit at December 31, 2004.

MOUNTAINTOP, PENNSYLVANIA

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

MATTOON, ILLINOIS

Prior to the Company's acquisition of Young Radiator, Young agreed to clean up alleged contamination on a prior production site in Mattoon, Illinois. The Company is in the process of remediating the site with the state of Illinois and now estimates the costs to remediate the site to be approximately $18,000 which has been accrued at December 31, 2004.

RACINE, WISCONSIN

Young ceased manufacturing operations at its Racine facility in the early 1990s. Investigations prior to the acquisition of Young revealed some levels of contamination on the Racine property and the Company has begun remediation efforts. The Company has initiated a comprehensive site evaluation with the state of Wisconsin and believes this governing body is generally in agreement with the findings. The Company has accrued approximately $165,000 at December 31, 2004 as its estimate of the remaining remediation costs.

GETS-GS

On November 3, 2000, the Company settled a suit brought against it in 1999 by GE-Harris Railway Electronics, L.L.C. and GE-Harris Railway Electronics Services, L.L.C. (collectively "GE-Harris"). On September 20, 2002, a motion in that lawsuit was filed by the successor to GE-Harris, GE Transportation Services Global Signaling, L.L.C. ("GETS-GS"). The motion by GETS-GS contended that the Company is acting beyond authority granted in the parties' November 2000 settlement and license agreement and in contempt of the consent order that concluded the suit at that time.

In support of its motion, GETS-GS pointed principally to sales and offers to sell certain railway brake equipment, including distributed power equipment, to Australian customers. In August 2004, the United States District Court for the District of Delaware ruled partially in favor of GETS-GS ordering the Company to pay compensatory damages for lost licensing profits related to the above mentioned distributed power equipment

contracts and reimbursement for reasonable attorneys' fees and expenses. While the Company disagrees with the ruling and intends to continue to contest this ruling, this liability of $3.2 million was recognized in 2004 as a component of selling, general and administrative expense. Should an option be exercised by the Company's Australian customers for additional shipments of products under the same distributed power contracts, an additional $2.7 million of compensatory damages could be owed to GETS-GS. The additional liability will not be recognized by the Company until and if such option is exercised.

The Company has other contingent obligations relating to certain sales leaseback transactions, for locomotives that were assumed in connection with the MotivePower merger in 1999, for which reserves of $4.7 million have been established.

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

19. SEGMENT INFORMATION

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

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

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

The Company evaluates its business segments' operating results based on income from operations. Corporate activities include general corporate expenses, elimination of intersegment transactions, interest income and expense and other unallocated charges. Since certain administrative and other operating expenses and other items have not been allocated to business segments, the results in the below 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 2004 is as follows:

In thousands	Freight Group	Transit Group	Corporate Activities	Total
Sales to external customers	$ 587,685	$ 234,333	—	$ 822,018
Intersegment sales/(elimination)	9,986	305	(10,291)	—
Total sales	$ 597,671	$ 234,638	$ (10,291)	$ 822,018
Income (loss) from operations	$ 63,690	$ 17,543	$ (25,828)	$ 55,405
Interest expense and other	—	—	(12,548)	(12,548)
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	$ 63,690	$ 17,543	$ (38,376)	$ 42,857
Depreciation and amortization	16,718	5,738	3,656	26,112
Capital expenditures	14,602	4,106	554	19,262
Segment assets	438,138	161,475	113,783	713,396

Segment financial information for 2003 is as follows:

In thousands	Freight Group	Transit Group	Corporate Activities	Total
Sales to external customers	$ 522,279	$ 195,645	—	$ 717,924
Intersegment sales/(elimination)	8,998	686	(9,684)	—
Total sales	$ 531,277	$ 196,331	$ (9,684)	$ 717,924
Income (loss) from operations	$ 75,479	$ 198	$ (25,863)	$ 49,814
Interest expense and other	—	—	(14,772)	(14,772)
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	$ 75,479	$ 198	$ (40,635)	$ 35,042
Depreciation and amortization	17,897	5,178	2,209	25,284
Capital expenditures	12,097	1,581	3,792	17,470
Segment assets	418,064	150,478	87,806	656,305

Segment financial information for 2002 is as follows:

In thousands	Freight Group	Transit Group	Corporate Activities	Total
Sales to external customers	$ 443,443	$ 252,752	—	$ 696,195
Intersegment sales/(elimination)	8,849	567	(9,416)	—
Total sales	$ 452,292	$ 253,319	$ (9,416)	$ 696,195
Income (loss) from operations	$ 47,471	$ 22,237	$ (22,978)	$ 46,730
Interest expense and other	—	—	(22,826)	(22,826)
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	$ 47,471	$ 22,237	$ (45,804)	$ 23,904
Depreciation and amortization	17,166	5,761	2,586	25,513
Capital expenditures	9,134	3,757	1,246	14,137
Segment assets	375,032	142,764	71,069	588,865

The following geographic area data as of and for the years ended December 31, 2004, 2003 and 2002, respectively, includes net sales based on product shipment destination and long-lived assets, which consist of plant, property and equipment, net of depreciation, resident in their respective countries:

	Net Sales			Long-Lived Assets		
In thousands	2004	2003	2002	2004	2003	2002
United States	$ 544,369	$ 497,579	$ 525,724	$ 98,931	$ 99,091	$ 99,292
Canada	82,156	61,770	50,035	32,061	31,786	27,889
Mexico	14,393	10,225	11,487	5,970	10,473	10,979
Other international	181,100	148,350	108,949	13,999	12,489	10,432
Total	$ 822,018	$ 717,924	$ 696,195	$ 150,961	$ 153,839	$ 148,592

Export sales from the Company's United States operations were $81.6 million, $59.2 million and $61.9 million for the years ending December 31, 2004, 2003 and 2002, respectively. The following data reflects income (loss) from operations by major geographic area, attributed to the Company's operations within each of the following countries or regions for the years ended December 31, 2004, 2003 and 2002, respectively:

	Income (Loss) from Operations		
In thousands	2004	2003	2002
United States	$36,453	$42,860	$34,465
Canada	4,986	(6,385)	496
Mexico	(3,902)	(397)	(1,040)
Other international	17,868	13,736	12,809
Total	$55,405	$49,814	$46,730

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2004		2003	
In thousands	Carry Value	Fair Value	Carry Value	Fair Value
Interest rate swaps	$ —	$ —	$ (377)	(377)
Foreign exchange contracts	3,585	3,585	235	235
6.875% senior notes	150,000	157,500	150,000	155,437

The fair value of the Company's interest rate swaps (see Note 9), foreign exchange contracts and senior notes were based on dealer quotes and represent the estimated amount the Company would pay to the counterparty to terminate the agreements.

21. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION

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

Balance Sheet for December 31, 2004:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash	$ 41,117	$ 24,849	$ 29,291	$ —	$ 95,257
Accounts Receivable	464	78,448	60,931	—	139,843
Inventory	—	60,097	36,895	—	96,992
Other Current Assets	20,103	2,099	5,279	—	27,481
Total Current Assets	61,684	165,493	132,396	—	359,573
Net Property, Plant and Equipment	7,193	92,709	51,059	—	150,961
Goodwill	8,176	76,467	28,823	—	113,466
Investment in Subsidiaries	673,469	59,128	8,018	(740,615)	—
Intangibles	12,817	26,343	720	—	39,880
Other Long Term Assets	33,618	5,754	10,144	—	49,516
Total Assets	$796,957	$ 425,894	$ 231,160	$(740,615)	$ 713,396
Current Liabilities	$ 8,034	$ 107,727	$ 65,111	$ —	$ 180,872
Intercompany	265,172	(302,853)	37,681	—	—
Long-Term Debt	150,000	48	59	—	150,107
Other Long Term Liabilities	61,325	3,800	4,866	—	69,991
Total Liabilities	484,531	(191,278)	107,717	—	400,970
Stockholders’ Equity	312,426	617,172	123,443	(740,615)	312,426
Total Liabilities and Stockholders’ Equity	$796,957	$ 425,894	$ 231,160	$(740,615)	$ 713,396

Balance Sheet for December 31, 2003:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash	$ 48,475	$ 3,054	$ 18,799	$ —	$ 70,328
Accounts Receivable	30	70,133	58,911	—	129,074
Inventory	400	53,161	38,248	—	91,809
Other Current Assets	25,241	2,091	3,549	—	30,881
Total Current Assets	74,146	128,439	119,507	—	322,092
Net Property, Plant and Equipment	6,919	95,026	51,894	—	153,839
Goodwill	8,176	76,467	24,807	—	109,450
Investment in Subsidiaries	581,383	67,958	2,952	(652,293)	—
Intangibles	9,023	27,678	1,075	—	37,776
Other Long Term Assets	22,254	4,184	6,710	—	33,148
Total Assets	$701,901	$ 399,752	$ 206,945	$(652,293)	$ 656,305
Current Liabilities	$ 13,108	$ 91,473	$ 48,199	$ —	$ 152,780
Intercompany	196,847	(239,338)	42,491	—	—
Long-Term Debt	190,000	115	110	—	190,225
Other Long Term Liabilities	53,653	4,768	6,586	—	65,007
Total Liabilities	453,608	(142,982)	97,386	—	408,012
Stockholders’ Equity	248,293	542,734	109,559	(652,293)	248,293
Total Liabilities and Stockholders’ Equity	$701,901	$ 399,752	$ 206,945	$(652,293)	$ 656,305

Income Statement for the Year Ended December 31, 2004:

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

Income Statement for the Year Ended December 31, 2003:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination[1]	Consolidated
Net Sales	$ —	$ 535,234	$ 284,796	$ (102,106)	$ 717,924
Cost of Sales	(1,452)	(366,069)	(248,778)	87,825	(528,474)
Gross (Loss) Profit	(1,452)	169,165	36,018	(14,281)	189,450
Operating Expenses	(38,859)	(73,779)	(26,998)	—	(139,636)
Operating (Loss) Profit	(40,311)	95,386	9,020	(14,281)	49,814
Interest (Expense) Income	(15,703)	5,640	(1,055)	—	(11,118)
Other (Expense) Income	(4,019)	4,942	(4,577)	—	(3,654)
Equity Earnings	82,145	8,649	—	(90,794)	—
Pretax Income (Loss)	22,112	114,617	3,388	(105,075)	35,042
Income Tax Benefit (Expense)	591	(10,684)	(2,697)	—	(12,790)
Income from Continuing Operations	22,703	103,933	691	(105,075)	22,252
Discontinued Operations	—	451	—	—	451
Net Income (Loss)	$ 22,703	$ 104,384	$ 691	$ (105,075)	$ 22,703

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

Income Statement for the Year Ended December 31, 2002:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination[1]	Consolidated
Net Sales	$ 400	$ 541,871	$ 229,691	$ (75,767)	$ 696,195
Cost of Sales	(5,592)	(382,599)	(192,717)	64,184	(516,724)
Gross (Loss) Profit	(5,192)	159,272	36,974	(11,583)	179,471
Operating Expenses	(32,896)	(75,074)	(24,771)	—	(132,741)
Operating (Loss) Profit	(38,088)	84,198	12,203	(11,583)	46,730
Interest (Expense) Income	(24,273)	6,337	(1,199)	—	(19,135)
Other (Expense) Income	(3,006)	5,335	(6,020)	—	(3,691)
Equity Earnings	79,628	5,376	—	(85,004)	—
Pretax Income (Loss)	14,261	101,246	4,984	(96,587)	23,904
Income Tax Benefit (Expense)	1,923	(6,125)	(3,392)	—	(7,594)
Income (Loss) from Continuing Operations	16,184	95,121	1,592	(96,587)	16,310
Discontinued Operations	—	1,116	(1,242)	—	(126)
Cumulative Effect of Accounting Change	(61,663)	—	—	—	(61,663)
Net (Loss) Income	$(45,479)	$ 96,237	$ 350	$ (96,587)	$ (45,479)

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

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

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by Operating Activities	$ 11,666	$127,063	$ 13,551	$ (99,413)	$ 52,867
Net Cash Used in Investing Activities	(600)	(10,752)	(6,456)	—	(17,808)
Net Cash Used in Financing Activities	(18,424)	(94,516)	(5,012)	99,413	(18,539)
Effect of Changes in Currency Exchange Rates	—	—	8,409	—	8,409
Increase (Decrease) in Cash	(7,358)	21,795	10,492	—	24,929
Cash at Beginning of Period	48,475	3,054	18,799	—	70,328
Cash at End of Period	$ 41,117	$ 24,849	$ 29,291	$ —	$ 95,257

Condensed Statement of Cash Flows for the Year Ended December 31, 2003:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by Operating Activities	$24,427	$ 118,435	$ 18,117	$(105,075)	$ 55,904
Net Cash Used in Investing Activities	(1,866)	(5,603)	(5,080)	—	(12,549)
Net Cash Provided by (Used in) Financing Activities	14,425	(109,604)	(720)	105,075	9,176
Effect of Changes in Currency Exchange Rates	—	—	(1,413)	—	(1,413)
Increase in Cash	36,986	3,228	10,904	—	51,118
Cash at Beginning of Period	11,489	(174)	7,895	—	19,210
Cash at End of Period	$48,475	$ 3,054	$ 18,799	$ —	$ 70,328

Condensed Statement of Cash Flows for the Year Ended December 31, 2002:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by (Used in) Operating Activities	$ 10,631	$102,791	$ (1,177)	$ (96,587)	$ 15,658
Net Cash Used in Investing Activities	(1,345)	(6,545)	(2,927)	—	(10,817)
Net Cash Provided by (Used in) Financing Activities	(43,413)	(96,884)	(344)	96,587	(44,054)
Effect of Changes in Currency Exchange Rates	—	—	4,474	—	4,474
Increase (Decrease) in Cash	(34,127)	(638)	26	—	(34,739)
Cash at Beginning of Period	45,616	464	7,869	—	53,949
Cash at End of Period	$ 11,489	$ (174)	$ 7,895	$ —	$ 19,210

22. OTHER EXPENSE

The components of other expense are as follows:

	For the year ended December 31,		
In thousands	2004	2003	2002
Foreign currency loss	$(1,245)	$(2,784)	$(1,162)
Other miscellaneous income (expense)	225	(870)	(2,529)
Total other expense	$(1,020)	$(3,654)	$(3,691)

23. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

In thousands, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004				
Net sales	$ 188,228	$ 206,508	$ 202,894	$ 224,388
Gross profit	47,518	52,653	49,364	55,629
Operating income	11,483	18,061	9,638	16,223
Income from continuing operations	4,807	8,963	9,428	8,898
Income from discontinued operations (net of tax)	—	—	—	349
Net income	4,807	8,963	9,428	9,247
Basic earnings from continuing operations per common share	$ 0.11	$ 0.20	$ 0.21	$ 0.19
Diluted earnings from continuing operations per common share	$ 0.11	$ 0.20	$ 0.20	$ 0.19
2003				
Net sales	$ 169,523	$ 174,856	$ 167,189	$ 206,356
Gross profit	45,276	47,562	43,425	53,187
Operating income	12,134	13,352	10,498	13,830
Income from continuing operations before taxes	5,566	5,570	5,550	5,566
Income (loss) from discontinued operations (net of tax)	117	(44)	53	325
Net income	5,683	5,526	5,603	5,891
Basic earnings from continuing operations per common share	$ 0.13	$ 0.13	$ 0.13	$ 0.12
Diluted earnings from continuing operations per common share	$ 0.13	$ 0.13	$ 0.13	$ 0.12

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/ WILLIAM E. KASSLING

William E. Kassling,
Chief Executive Officer

Date: March 11, 2005

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

Signature and Title	Date
By /s/ WILLIAM E. KASSLING **William E. Kassling,** **Chairman of the Board, President,** **Chief Executive Officer and Director**	March 11, 2005
By /s/ ROBERT J. BROOKS **Robert J. Brooks,** **Director**	March 11, 2005
By /s/ KIM G. DAVIS **Kim G. Davis,** **Director**	March 11, 2005
By /s/ EMILIO A. FERNANDEZ **Emilio A. Fernandez,** **Director**	March 11, 2005
By /s/ LEE B. FOSTER, II **Lee B. Foster,** **Director**	March 11, 2005
By /s/ MICHAEL W. D. HOWELL **Michael W. D. Howell,** **Director**	March 11, 2005
By /s/ JAMES P. MISCOLL **James P. Miscoll,** **Director**	March 11, 2005
By /s/ JAMES V. NAPIER **James V. Napier,** **Director**	March 11, 2005

SCHEDULE II

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
For each of the three years ended December 31

In thousands	Balance at beginning of period	Charged/ (credited) to expense	Charged to other accounts (1)	Deductions from reserves (2)	Balance at end of period
2004					
Warranty and overhaul reserves	$ 13,307	$ 14,914	$ —	$ 10,808	$17,413
Allowance for doubtful accounts	4,452	2,160	—	4,616	1,996
Valuation allowance-taxes	18,487	—	4,038	—	14,449
Inventory reserves	16,403	3,451	—	4,990	14,864
Merger and restructuring reserve	86	—	—	86	—
2003					
Warranty and overhaul reserves	$ 17,407	$ 10,489	$ —	$ 14,589	$13,307
Allowance for doubtful accounts	4,647	1,576	—	1,771	4,452
Valuation allowance-taxes	14,566	—	(3,921)	—	18,487
Inventory reserves	12,408	5,326	—	1,331	16,403
Merger and restructuring reserve	647	—	—	561	86
2002					
Warranty and overhaul reserves	$ 15,373	$ 17,625	$ —	$ 15,591	$17,407
Allowance for doubtful accounts	2,294	2,923	—	570	4,647
Valuation allowance-taxes	8,641	—	5,925	—	14,566
Inventory reserves	13,228	3,802	—	4,622	12,408
Merger and restructuring reserve	3,152	—	—	2,505	647

(1) Reserves of acquired/(sold) companies and valuation allowances for state and foreign deferred tax assets

(2) Actual disbursements and/or charges

EXHIBITS

Exhibits		Filing Method
2.1	Amended and Restated Agreement and Plan of Merger, as amended (originally included as Annex A to the Joint Proxy Statement/Prospectus)	5
3.1	Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995	2
3.3	Amended and Restated By-Laws of the Company, effective November 19, 1999	5
4.1(a)	Indenture with the Bank of New York as Trustee dated as of August 6, 2003	12
4.1(b)	Resolutions Adopted July 23, 2003 by the Board of Directors establishing the terms of the offering of up to $150,000,000 aggregate principal amount of 6.875% Notes due 2013	12
4.2	Purchase Agreement, dated July 23, 2003, by and between the Company and the initial purchasers	12
4.3	Exchange and Registration Rights Agreement, dated August 6, 2003	12
10.1	MotivePower Stock Option Agreement (originally included as Annex B to the Joint Proxy Statement/Prospectus)	5
10.2	Westinghouse Air Brake Stock Option Agreement (originally included as Annex C to the Joint Proxy Statement/Prospectus)	5
10.3	Voting Agreement dated as of September 26, 1999 among William E. Kassling, Robert J. Brooks, Harvard Private Capital Holdings, Inc. Vestar Equity Partners, L.P. and MotivePower Industries, Inc. (originally included as Annex D to the Joint Proxy Statement/Prospectus)	5
10.9	Amended and Restated Refinancing Credit Agreement dated as of November 19, 1999 among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York (Schedules and Exhibits omitted)	6
10.10	Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the RAC Voting Trust (“Voting Trust”), Vestar Equity Partners, L.P. (“Vestar Equity”), Harvard Private Capital Holdings, Inc. (“Harvard”), American Industrial Partners Capital Fund II, L.P. (“AIP”) and the Company	3
10.12	Indemnification Agreement dated January 31, 1995 between the Company and the Voting Trust Trustees	2
10.13	Agreement of Sale and Purchase of the North American Operations of the Railway Products Group, an operating division of American Standard Inc., dated as of 1990 between Rail Acquisition Corp. and American Standard Inc. (only provisions on indemnification are reproduced)	2
10.14	Letter Agreement (undated) between the Company and American Standard Inc. on environmental costs and sharing	2
10.15	Purchase Agreement dated as of June 17, 1992 among the Company, Schuller International, Inc., Manville Corporation and European Overseas Corporation (only provisions on indemnification are reproduced)	2
10.16	Asset Purchase Agreement dated as of January 23, 1995 among the Company, Pulse Acquisition Corporation, Pulse Electronics, Inc., Pulse Embedded Computer Systems, Inc. and the Pulse Shareholders (Schedules and Exhibits omitted)	2
10.17	License Agreement dated as of December 31, 1993 between SAB WABCO Holdings B.V. and the Company	2

Exhibits		Filing Method
10.18	Letter Agreement dated as of January 19, 1995 between the Company and Vestar Capital Partners, Inc.	2
10.19	Westinghouse Air Brake Company 1995 Stock Incentive Plan, as amended	4
10.20	Westinghouse Air Brake Company 1995 Non-Employee Directors' Fee and Stock Option Plan, as amended	6
10.22	Letter Agreement dated as of January 1, 1995 between the Company and Vestar Capital Partners, Inc.	2
10.23	Form of Indemnification Agreement between the Company and Authorized Representatives	2
10.27	Amendment No. 1 to Amended and Restated Stockholders Agreement dated as of March 5, 1997 among the Voting Trust, Vestar, Harvard, AIP and the Company	3
10.28	Common Stock Registration Rights Agreement dated as of March 5, 1997 among the Company, Harvard, AIP and the Voting Trust	3
10.29	1998 Employee Stock Purchase Plan	4
10.32	Westinghouse Air Brake Technologies Corporation 2000 Stock Incentive Plan	7
10.33	Amendment No. 1, dated as of November 16, 2000, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and ABN AMRO Bank N.V. as bookrunner and co-syndication agent, The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999 among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	8
10.34	Amendment No. 2, dated as of March 30, 2001, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and ABN AMRO Bank N.V. as bookrunner and co-syndication agent, The Chase Manhattan Bank as administrative agent, The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999, as amended, among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	10
10.35	Amendment No. 3, dated as of July 18, 2001, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and LaSalle Bank National Association and ABN AMRO Bank N.V. as bookrunner and co-syndication agent, The Bank of New York, as co-syndication agent, The Chase Manhattan Bank as administrative agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999, as amended, among the Company, various financial institutions, ABN AMRO Bank N.V., The	10

Exhibits		Filing Method
	Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	
10.36	Amendment No. 4, dated as of September 17, 2001, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and LaSalle Bank National Association as bookrunner and co-syndication agent, The Chase Manhattan Bank as administrative agent, The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999, as amended, among the Company, various financial institutions, LaSalle Bank National Association, The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	10
10.37	Amendment No. 5, dated as of November 14, 2001, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and LaSalle Bank National Association as bookrunner and co- syndication agent, JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank) as administrative agent, The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999, as amended, among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999 (Exhibits omitted)	10
10.38	Amendment No. 6, dated as of November 13, 2002, by and among the Company and the Guarantors from Time to Time Party Thereto, and the Banks From Time to Time Party Thereto, and LaSalle Bank National Association as bookrunner and co-syndication agent, JP Morgan Chase Bank as administrative agent, and The Bank of New York, as co-syndication agent, Mellon Bank, N.A., as documentation agent, LaSalle Bank National Association, as an issuing bank, ABN AMRO Bank N.V., as an issuing bank, and The Chase Manhattan Bank USA, N.A., (successor in interest to Chase Manhattan Bank Delaware), as an issuing bank, to the Amended and Restated Refinancing Credit Agreement, dated as of November 19, 1999, as amended, among the Company, various financial institutions, ABN AMRO Bank N.V., The Chase Manhattan Bank, and The Bank of New York which was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the period ended December 31, 1999	11
10.39	Asset Purchase Agreement, by and between General Electric Company, through its GE Transportation Systems business and Westinghouse Air Brake Technologies Corporation, dated as of July 24, 2001	9
10.40	Refinancing Credit Agreement by and among the Company, the Guarantors, various lenders, LaSalle Bank National Association, JP Morgan Chase Bank, The Bank of New York, Citizens Bank of Pennsylvania, National City Bank of Pennsylvania, The Bank of Nova Scotia, Bank of Tokyo-Mitsubishi Trust Company and PNC Bank, National Association dated January 12, 2004	13
10.41	Sale and Purchase Agreement, by and between Rütgers Rail S.p.A. and the Company, dated August 12, 2004.	1

Exhibits		Filing Method
10.42	Amendment Agreement dated January 28, 2005 by and among Rütgers Rail S.p.A., the Company, CoFren S .r.l. and RFPC Holding Company to the Sale and Purchase Agreement dated August 12, 2004	1
21	List of subsidiaries of the Company	1
23.1	Consent of Ernst & Young LLP	1
31.1	Rule 13a-14(a)/15d-14(a) Certifications	1
32.1	Section 1350 Certifications	1
99.1	Annual Report on Form 11-K for the year ended December 31, 2004 of the Westinghouse Air Brake Technologies Corporation Savings Plan	1

1 Filed herewith.

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

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

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

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

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

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

8 Filed as an exhibit to the Company’s Annual Report on Form 10-K for the period ended December 31, 2000.

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

10 Filed as an exhibit to the Company’s Annual Report on Form 10-K for the period ended December 31, 2001.

11 Filed as an exhibit to the Company’s Annual Report on Form 10-K for the period ended December 31, 2002.

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

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

Exhibit 10.41

Sale and Purchase Agreement

This agreement is entered into this 12TH day of August, 2004

BY AND AMONG

- RÜTGERS RAIL S.p.A., a company duly organized and existing under the laws of Italy, having its registered office in 83100 Avellino, at Via Pianodardine, Fiscal Code 01905290167 hereinafter referred to as **"Seller"** or "**Rütgers Rail SpA**", which is subject to the direction and co-ordination of Rütgers AG, a German company with its registered office in Essen (Germany) hereby represented by Dr. Bertrand Falque (President of the Board of Directors of Seller) and Dr. Thomas Altenbach, (member of the Board of Directors of the Seller).

- on one side -

AND

- WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION, a company duly organized and existing under the laws of Delaware, having its principal office at 1001 Air Brake Avenue, Wilmerding, PA 15148, (hereinafter referred to as "Purchaser"), hereby represented by Mr. Anthony J. Carpani, duly authorized;

- on the other side -.

Seller and Purchaser are also severally referred to as "**Party**" and collectively as "**Parties**".

RECITALS

A. Whereas, Seller is in the business of designing, developing, manufacturing, marketing and selling in Europe brake shoes, brake pads and related products and windows and interior fittings for rail cars (the "**Business**").

B. Whereas, Purchaser wishes to purchase (directly or indirectly through a subsidiary) from Seller, and Seller wishes to assign, convey and transfer to Purchaser, substantially all of the assets and properties held by Seller primarily relating to, used or held for use in connection with the Business upon the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, the Parties hereby agree as follows:

ARTICLE 1

Premises, Enclosures and Schedules

The above recitals, as well as the enclosures and Schedules annexed to this Agreement and referred herein shall form an integral and substantial part hereof, and shall be binding upon the Parties.

ARTICLE 2

Certain Definitions

In addition to any other term defined in other parts of this Agreement, the following terms shall have, for the purposes of this Agreement, the meanings set forth below.

2.0 "Accounting Principles" shall mean: (i) as to RÜTGERS Rail SpA, the Italian Accounting Principles (as defined below), which have been consistently applied by RÜTGERS Rail SpA in respect of its last 2 (two) audited annual financial statements; (ii) as to any Subsidiary incorporated in a jurisdiction other than Italy, the accounting principles generally accepted in the country in which the relevant company is incorporated, as consistently applied (in the case of Abex Rail S.A. in respect of its last 2 (two) audited annual financial statements), (iii) in all cases as amended and supplemented by the accounting principles and the application and construction criteria set forth in Schedule 2.0 hereto, provided that, however, in any case such principles shall be sound and correct and applied in compliance with applicable Legal Requirements and (iv) Seller's past practices consistently applied.

2.1 "Affiliate" shall mean any entity or individual that directly or indirectly controls, is controlled by or is under common control with another entity or individual. "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of an entity whether through ownership of voting securities, by contract or otherwise.

2.2 "Agreement" shall mean this agreement for the purchase and sale of the Business.

2.3 “Business Days” shall mean the days in which banks in Milan, Italy, are open for business.

2.4 “Cash” shall mean at the relevant date, the aggregate consolidated amount of any cash at hand and cash equivalents of Seller and the Subsidiaries. “Cash equivalents” shall include, without limitation, any cheques, deposits with banks and other financial institutions, marketable securities of any kind (whether debt, equity or other), money market funds, other liquid and marketable investments, or marketable shares in other investment funds. Cash shall also include any pre-payment of any tax made by the Seller and the Subsidiaries prior to the Effective Date with respect to any tax period ending after the Effective Date as specifically described on Schedule 2.4.

2.5 “Closing” shall mean the actual transfer and delivery of the Assets to Purchaser and/or any person indicated by the Purchaser pursuant to Article 2.15, as well as the other actions set forth under Article 7.

2.6 “Effective Date” shall mean 23.59 hours of the day before the day on which the Closing occurs.

2.7 The “Effective Date Net Worth” shall be calculated on the basis of the Effective Date Consolidated Balance Sheet, applying the same criteria as applied in the calculation of the Reference Date Net Worth.

2.8 “Financial Statements” shall mean the audited financial statements of Seller together with the report thereon of PricewaterhouseCoopers LLP, independent certified accountants, and Abex Rail S.A., together with the report thereon of KPMG, independent certified accountants, prepared in accordance with the respective Italian or French Accounting Principles as of and for the year ended December 31, 2003, as well as the unaudited pro forma financial statements of the Rütgers Rail GmbH and the pro forma consolidated financial statements of Seller, Abex Rail S.A. and Rütgers Rail GmbH, together with the report thereon of PricewaterhouseCoopers LLP, independent certified accountants, (the balance sheet included in such pro forma consolidated financial statements is hereinafter also referred to as “pro forma consolidated Reference Date Balance Sheet”) and all attached under Schedule 2.8 hereto.

2.9 “Independent Accountant” shall mean the firm of certified accountants named PricewaterhouseCoopers LLP, failing acceptance by such firm, the firm of certified accountants named Deloitte & Touche, failing acceptance by such firm, the firm of certified accountants KPMG.

2.10 “Italian Accounting Principles” shall mean the Italian generally accepted accounting principles of the Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri, and in the lack of any such principles, the accounting principles of the International Accounting Standards Committee (IASC) consistently applied.

2.11 “Legal Requirement” shall mean any binding international, national, regional, provincial or local law, regulation or treaty.

2.12 “Liability” shall mean with respect to any person or entity, any liability or obligation of such person or entity of any kind, character or description, whether known or unknown, absolute or contingent, accrued or unaccrued, disputed or undisputed, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise, and whether or not the same is required to be accrued on the financial statements of such person or entity.

2.13 “Material Adverse Change” shall mean the occurrence of any events or changes that result in, or may be reasonably likely to result in, (1) a loss, destruction or decrease in value (other than normal wear and tear) of the assets of the Business, (2) additional Liabilities of the Business (other than Excluded Liabilities and other than contracts entered into in the ordinary course of business), (3) an effect on the results of operations or financial condition of the Business as a whole or (4) changes in the Contracts, provided, that any of (i) through (iv) shall have a negative net effect individually of at least Euro 500,000, and in the aggregate of at least Euro 1,400,000. For purposes of calculating the effects of such events or changes, the following principles shall apply: (i) the net aggregate effect of the changes or events shall be measured based on a 24 month period beginning on the date of Closing, (ii) the individual net effect of any individual changes or events shall be measured based on any rolling twelve (12) month period within the 24 month period beginning on the date of Closing, (iii) a delay of a Contract of no more than 12 months shall not be considered to be a “negative effect,” and (iv) “Material Adverse Change” shall not include any change or effect attributable to general economic or industry conditions. “Net effect” shall mean any negative effect offset by any new Contracts entered into prior to Closing.

2.14 “Proceeding” shall mean any action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, judicial or investigative) commenced, brought, conducted or heard by or before any governmental body or arbitrator.

2.15 “Purchaser” shall mean Westinghouse Air Brake Technologies Corporation, as better identified above, and/or that other entity controlled by Purchaser, in any case being part of its group, which Purchaser reserves the possibility and right to designate according to Article 1401 of the Italian Civil Code, by and no later than fifteen (15) Business Days prior to Closing (hereinafter referred to as the “**Designated Purchaser**”). Upon such designation and relevant acceptance by the Designated

Purchaser, all and any of Purchaser's rights and all and any of Purchaser's obligations deriving from this Agreement shall be respectively automatically transferred and assigned to the Designated Purchaser, effective as of the date hereof, as if the Designated Purchaser originally executed this Agreement in place of Purchaser, it being understood that Purchaser shall not be released of any of its obligations under this Agreement and shall be jointly and severally liable with the Designated Purchaser with respect to the Seller for any obligations arising from this Agreement.

2.16 "Reference Date" shall mean December 31, 2003.

2.17 "Reference Date Net Worth" shall mean the amount equal to the difference between (i) the amount shown on the pro forma consolidated Reference Date Balance Sheet under the heading "Total Assets" (disregarding any items reflected on the pro forma consolidated Reference Date Balance Sheet not transferred to Purchaser) and (ii) the amount shown on the pro forma consolidated Reference Date Balance Sheet under the heading "Total Liabilities" (disregarding any Liabilities that are not Assumed Liabilities, even if reflected on the pro forma consolidated Reference Date Balance Sheet).

2.18 "Schedule" shall mean any schedule attached to this Agreement.

2.19 "Seller" shall have the meaning set forth in the Preamble.

2.20 "Sellers' Knowledge" shall mean the knowledge of any member of the Board of Directors of Seller and the Subsidiaries and Thomas Altenbach, Michael Delansaye, Bertrand Falque, Dr. Ing Sergio Russo, Karl Kever and Juergen Schroeder.

2.21 "Subsidiary" shall have the meaning set forth in Section 3.1(n).

2.22 "Tax" shall mean any form of taxes, assessments, charges, duties, fees, levies or other governmental charges including those relating to income, franchise, capital stock, real property, personal property, tangible, withholding, employment, payroll, social security, social contribution, unemployment compensation, disability, transfer, sales, use, excise, gross receipts, value-added and all other taxes of any kind levied pursuant to any applicable law by any governmental, regional, provincial or local government or municipality together with any interest or penalty thereto, but excluding any deferred tax.

2.23 "Tax Asset" shall mean any credit or tax item that can be carried forward or back as a tax loss to reduce any Tax.

2.24 "Tax Authority" shall mean any governmental authority in charge of imposing any Tax.

2.25 "Tax Period Before Effective Date" shall mean any Tax assessment period ending on or before the Effective Date.

2.26 "Tax Refund" shall mean any repayment of any Tax received by any Party and any claim for repayment of any Tax assessed in favour of any Party by a Tax Authority.

2.27 "Tax Return" shall mean any return or declaration relating to any Tax, which must be made to a Tax Authority under applicable laws.

2.28 "Tax Saving" shall mean any decrease of any assessed Tax, including any increase of loss carry forwards, any depreciable, amortizable or accruable item or amount relevant for the assessment of any present or future Tax, or any corporation tax credit.

2.29 "Transfer Agreements" shall mean the final agreements of sale and purchase of the Assets and Assumed Liabilities to be executed between the Seller and the Purchaser in accordance with the applicable law.

ARTICLE 3

Sale and Purchase of the Assets, Purchase Price and Other Related Matters

3.1 **Sale and Purchase**. Upon the terms and subject to the conditions of this Agreement, at Closing, the Seller shall sell, assign and deliver to Purchaser, and Purchaser shall purchase from the Seller, all right, title and interest of the Seller in and to the properties, assets and assignable rights of every nature, kind and description, tangible and intangible (including goodwill), whether now existing or acquired by the Closing (other than the Excluded Assets) primarily relating to, used or held for use in connection with the Business on the Effective Date (collectively, the "**Assets**"), including without limitation the following items:

(a) all machinery, equipment, furniture, furnishings, automobiles, trucks, vehicles, tools, dies, molds and parts and similar property (including, but not limited to, any of the foregoing purchased subject to any conditional sales or title retention agreement in favor of any other individual or entity), including those items described on Schedule 3.1(a);

(b) all inventories of raw materials, work in process, finished products, goods, spare parts, replacement and component parts, and office and other supplies (collectively, the "**Inventories**"), including without limitation Inventories held at any location controlled by the Seller or the Subsidiaries, Inventories previously purchased by the Seller and in transit to the Seller or the Subsidiaries at such locations or otherwise held on behalf of the Seller at any other location, including those items described on Schedule 3.1(b);

(c) all rights in and to products sold or leased by the Business (including, but not limited to, products hereafter returned or repossessed and unpaid Seller rights of rescission, replevin, reclamation and rights to stoppage in transit);

(d) all rights (including any and all IP Rights) in and to any products or applications under research or development prior to or on the Effective Date;

(e) to the extent the assignment from the Seller to the Purchaser is admitted under applicable statutory or contractual provisions, or the respective other party or parties agree to and do not oppose such assignment, all of the rights of Seller under all contracts, arrangements, licenses, leases and other agreements relating to the Business, including those items described in Schedule 3.1(e) (the "**Contracts**") and including, without limitation, the employment relationships with the members of the workforce in Avellino and Montefredane, any right to receive payment for products sold or services rendered, and to receive goods and services, pursuant to such Contracts and to assert claims and take other rightful actions in respect of breaches, defaults and other violations of such Contracts and otherwise;

(f) all credits, prepaid expenses, deferred charges, advance payments, security deposits and prepaid items relating to the Assets or the Business but excluding all such items of the Seller which fall under the definition of Cash;

(g) all accounts receivable held by Seller and all notes, bonds and other evidences of indebtedness of and rights to receive payments from any individual or entity held by Seller including those items described in Schedule 3.1(g) but excluding all such items of the Seller which fall under the definition of Cash;

(h) all intangible rights and property of Seller (including all IP Rights), relating to, used or held for use in connection with the Business, including, but not limited to, rights to sue for and remedies against past, present and future infringements thereof, and rights of priority and protection of interests therein under the laws of any jurisdiction worldwide and all tangible embodiments thereof but excluding the name and trademark "Rütgers" (whether used independently or as a component of names or trademarks) pursuant to Section 3.2 (together with all IP Rights included in the other clauses of this Section 3.1, the "**Intellectual Property Assets**");

(i) all books, records, manuals and other materials (in any form or medium) relating to the Business, including, without limitation, all records and materials maintained at any office of Seller or its Affiliates, advertising matter, catalogues, price lists, correspondence, mailing lists, lists of customers, distribution lists, photographs, production data, sales and promotional materials and records, purchasing materials and records, personnel records, manufacturing and quality control records and procedures, blueprints, research and development files, records, data and laboratory books, IP disclosures, media materials and plates, accounting records, sales order files and litigation files, except to the extent any of the aforesaid documents must, under the applicable Legal Requirements, continue to be kept by Seller, in which case, Seller shall provide a copy of such documentation to Purchaser in due course after Closing;

(j) to the extent their transfer is permitted by law, all permits, licenses, registrations or other instruments issued by any governmental body or agency relating to the Assets or the Business, including all applications therefor;

(k) all rights to causes of action, lawsuits, judgments, claims and demands of any nature available to or being pursued by Seller with respect to the Business or the ownership, use, function or value of any Asset, whether arising by way of counterclaim or otherwise;

(l) all guarantees, warranties, indemnities and similar rights in favor of Seller with respect to the Business or any Asset;

(m) the real property set forth on Schedule 3.1(m) hereto, together with any permits or licenses related thereto, to the extent their transfer is permitted by law; and

(n) all of Seller's shares in its subsidiaries (i) **Abex Rail S.A.**, a company duly organized and existing under the laws of France, having its registered office in 18100 Vierzon, 26 Rue de la Société, Fiscal Code and VAT no. FR 30 349 181 479 and a registered share capital of Euro 100,000 which is divided into 2,500 shares, each with a nominal value of Euro 40, of which 2,494 are owned by Seller; and the obligation of Seller to cause the transfer the remaining six shares held by six individuals and (ii) **RÜTGERS Rail GmbH**, a company duly organized and existing under the laws of Germany, having its registered office in 45329 Essen, at Schnieringshof 10-14, registered with the Companies' Register of Essen under no. HRB 17485, Fiscal Code and VAT no. DE 813 885 410 (hereinafter referred to as **"RÜTGERS Rail GmbH"**) and a registered share capital of Euro 25,000 (together, the "**Subsidiaries**").

Subject to the terms and conditions hereof, at the Closing, the Assets shall be transferred or otherwise conveyed to Purchaser free and clear of all Encumbrances (as defined in Section 8.2.4(b)) ("**Encumbrances**") other than customary title retention rights as specifically described on Schedule 3.1 and the Assumed Liabilities shall be transferred.

3.2 **Excluded Assets**. Seller will retain and not transfer, and Purchaser will not purchase or acquire, certain retained liabilities (the "**Retained Liabilities**") listed on Schedule 3.2(a) and the assets listed on Schedule 3.2(a) including but not limited to, (a) the capital stock of the Seller; (b) the name or trademark "Rütgers"; and (c) the Cash held by the Seller on the Effective Date (collectively, the "**Excluded Assets**"). The Cash held by the Subsidiaries is addressed by Sections 2.4 (Definitions) and 3.3 and 3.9 of this Agreement

3.3 **Provisional Purchase Price, Additional Purchase Price** . On the terms and subject to the conditions set forth in this Agreement, Purchaser agrees to pay to Seller € 28,000,000 (Twenty Eight Million Euro) (the "**Provisional Purchase Price**") plus an amount equal to the Cash held by the Subsidiaries as of the Effective Date the **"Additional Purchase Price"**). The Provisional Purchase Price shall be payable to the Seller at the Closing, by wire transfer. The Additional Purchase Price shall be payable according to Section 3.9.

3.4 **Allocation of Purchase Price**. The Parties agree to allocate the Provisional Purchase Price among the Assets (including goodwill created by the transactions contemplated under this Agreement) and the Liabilities in accordance with an allocation balance sheet/ transfer balance sheet. The Parties shall, and shall cause their respective accountants to begin preparation of this allocation jointly on or before 20th October 2004 and to be updated and finalized within one month after the later date on which the Additional Purchase Price becomes payable and the adjustment, if any, of the Purchase Price according to Article 3.7 has become binding between the Parties.

3.5 **Assumed Liabilities**. At the Closing, as an effect of the Transfer Agreements, Purchaser shall assume and agree to discharge and perform when due, only the following Liabilities of Seller (collectively, the "**Assumed Liabilities**"):

(a) all Liabilities for future performance arising out of the Contracts assigned to the Purchaser pursuant to Article 3.1, including the mandatory severance payment ("trattamento di fine rapporto") due under Italian employment laws which are inter alia described in Schedule 3.5(a) and any severance liabilities of the Seller toward

Franco Pani under the agency relationship but excluding any Liability arising out of the operation of the Business prior to the Closing such as any warranty or product liability claims;

(b) any trade account payables of the Business as set forth in the Financial Statements that remain unpaid as of the Effective Date, except for those that are overdue by more than 30 days from the due date as defined in the respective invoice (The overdue-exception does not apply to trade accounts payable which have not been paid yet for the reason of a good faith contestation or set-off relating to the Business). Any trade account payable owed by the Seller to any Affiliate of Seller other than the Subsidiaries shall be excluded, except as set forth on Schedule 3.5(b);

(c) any trade account payable of the Business incurred after the date of the Financial Statements but on or before the Effective Date in the ordinary course of business consistent with past practices that remains unpaid at the Effective Date, except for those that are overdue by more than 30 days from the due date as defined in the respective invoice (The overdue-exception does not apply to trade accounts payable which have not been paid yet for the reason of a good faith contestation or set-off relating to the Business), as of the Effective Date. Any trade account payable owed the Seller to any Affiliate of Seller other than the Subsidiaries shall be excluded, except as set forth on Schedule 3.5(c);

(d) Liabilities of the Business under written purchase orders or offers and sales orders or offers relating primarily to the Business, which have not been performed prior to the Effective Date as set forth on Schedule 3.1(a) (Attachments A and B);

(e) Liabilities for a prorated share (based on relative number of days of ownership) for Taxes arising out of the operation of the Business, which if paid on a timely basis, are due after the Effective Date (the **"Assumed Taxes"**);

Purchaser shall not be deemed to have assumed or agreed to pay, perform or discharge any Liability of the Seller, its Affiliates or the Business other than the Assumed Liabilities and all such other Liabilities of the Seller or the Business (other than the Assumed Liabilities) shall remain the responsibility of, and shall be retained, paid, performed, and discharged by Seller or its Affiliates (the **"Excluded Liabilities"**). Where the Purchaser incurs or suffers Losses as a consequence of Excluded Liabilities, Article 9, including Art. 9.2.2, of this Agreement shall apply.

3.6 **Transfer Agreement**. The sale and purchase of the Business shall be finalized through the Transfer Agreement to be executed at Closing, before an Italian notary and in the Italian language, substantially in the form shown in Schedule 3.6. It is understood that the Transfer Agreements will not supersede nor novate this Agreement. In particular,

all clauses of this Agreement providing for any obligation to be performed after Closing shall remain in full force and effect thereafter in accordance with their respective terms without necessity for any of the Parties to reiterate or otherwise confirm its commitment with respect thereto.

3.7 **Post-Closing Adjustment**.

(a) As promptly as practicable (but in no event later than forty-five (45) Business Days after the Effective Date), Seller shall deliver to Purchaser a consolidated balance sheet for the Business as of the Effective Date (the "**Effective Date Consolidated Balance Sheet**") and an accompanying closing statement (the "**Closing Statement**") reasonably detailing Seller's determination of the Reference Date Net Worth of the Business, the Effective Date Net Worth of the Business and of the difference between the Effective Date Net Worth and the Reference Date Net Worth. It is understood that in preparing the Effective Date Consolidated Balance Sheet, the Accounting Principles used for the preparation of the Financial Statements and Seller's internal accounting policies and practices shall be applied consistent with past practice. The core of these Accounting Principles are shown in Schedule 2.0. During the said forty-five (45) Business Day period, Purchaser shall grant Seller and its accountants full access upon reasonable notice at all reasonable times during normal business hours to Purchaser's books and records needed to prepare the Effective Date Consolidated Balance Sheet. The accounting procedures used to prepare the Effective Date Consolidated Balance Sheet shall include, at either Parties' request, the joint taking of a physical inventory by the Parties and their independent public accountants at the first Business Day after the Effective Date;

(b) the Effective Date Consolidated Balance Sheet and the calculation of the difference between the Effective Date Net Worth and the Reference Date Net Worth so delivered by Seller shall be final and binding upon the Parties unless a written notice of disagreement with respect thereto (hereinafter referred to as the "**Notice of Disagreement**"), specifying in detail the nature and reasons of such disagreement, is notified by Purchaser to Seller within forty-five (45) Business Days following the date on which the Effective Date Consolidated Balance Sheet and the calculation of the difference between the Effective Date Net Worth and the Reference Date Net Worth is delivered;

(c) if a Notice of Disagreement is notified as provided in Paragraph (b) preceding, during a period of thirty (30) Business Days following the delivery of such notice, Seller and Purchaser shall attempt to resolve any disagreement which they may have with respect to any matter specified in such Notice of Disagreement, and to lay down such solution in writing;

(d) if, at the end of such 30-Business-Day period, any matters remain which are the subject matter of the Notice of Disagreement but on which Seller and Purchaser failed to reach an agreement in writing, then all of such matters to which agreement is not so reached, will, at request of one Party, be submitted to and reviewed by the Independent Accountant;

(e) the Independent Accountant shall formally accept in writing the mandate to settle and determine the disputed matters as soon as possible after the date on which the disputed matters are submitted to it and – in accepting such mandate – shall expressly undertake in writing to:

(i) consider only the disputed matters;

(ii) determine the disputed matters by interpreting, if necessary any agreements between the Parties and making any adjustments required to the calculation of the difference between the Effective Date Net Worth and the Reference Date Net Worth;

(iii) summarily justify in writing its determinations with respect to each of the disputed matters; and

(iv) to carry out the above tasks (i) through (iii) within thirty (30) Business Days from the acceptance of the mandate;

(f) the Independent Accountant shall have access to the books, records, personnel and any other information of the Parties to the maximum extent required, in its reasonable judgment and prior consultation of the Parties, to perform the services contemplated hereby;

(g) upon resolution of all disputed matters, the Independent Accountant shall deliver to the Parties a revised Reference Date Net Worth and Effective Date Net Worth appropriately adjusted as described in the preceding paragraph (e) (ii);

(h) the determinations of the Independent Accountant prepared and delivered in accordance with the preceding paragraphs (e) (ii) and (g) shall be final and binding upon the Parties for the purposes of Article 3.8 and shall not be subject to appeal;

(i) all fees and disbursements of the Independent Accountant due in connection with the resolution of the disputed matters pursuant hereto and with the provision of the services contemplated hereby shall be borne by Purchaser and Seller equally.

3.8 **Payment of Adjustment to Purchase Price**. Seller and Purchaser shall settle any difference between the (i) Reference Date Net Worth, and (ii) the Effective Date Net Worth as finally agreed among the parties or determined in accordance with Article 3.7 within ten (10) Business Days after the differences between the Reference Date Net Worth and the Effective Date Net Worth has been finally agreed between the Parties or determined in accordance with Article 3.7, as follows:

(a) If the Effective Date Net Worth is higher than the Reference Date Net Worth, Purchaser shall pay to Seller an amount equal to the excess amount.

(b) If the Effective Date Net Worth is lower than the Reference Date Net Worth, Seller shall pay to Purchaser an amount equal to the shortfall.

3.9 **Payment of the Additional Purchase Price.** The Purchaser shall pay to the Seller within twenty (20) Business Days after Closing the Additional Purchase Price.

3.10 **Payment modalities**. All payments to be made pursuant to this Agreement shall be made in immediately available funds by irrevocable wire transfer to the bank account to be designated in writing by Seller or by Purchaser, as the case may be, at least two (2) Business Days prior to the date on which payment is due.

3.11 **Interest**. The payments under this Article 3 shall bear interest as follows:

(a) Any settlement payment pursuant to Article 3.8 shall bear interest at a rate of 6% on the amount of the payment pursuant to Section 3.8 multiplied by the number of days from and including the Effective Date to and including the date on which the amount is paid pursuant to Section 3.8, divided by 365;

(b) In the case of delay by any Party, the outstanding amount shall bear interest at a rate of 10% per annum from (and including) the due date to (and including) the date of payment.

Interest shall be calculated on the basis of a year of 365 days and shall become payable together with the amount to which it relates.

ARTICLE 4

Pre-Closing Filings

4.1 Each Party covenants and agrees to, and to cause its Affiliates to:

(a) if required under the law, promptly file, or cause to be promptly filed, with any Italian or foreign agency and/or authority, or any European Union, national or local governmental body and/or agency and/or authority, including but not limited to the competent antitrust authority/ies (hereinafter referred to as the "**Antitrust Authority**"), all such notices, applications or other documents as may be necessary to consummate the transactions contemplated hereby;

(b) provide a copy to the other Party of any notices, applications or other documents under (a) above, as well as of receipt of any notice from agency and/or authority, or any European Union, national or local governmental body and/or agency and/or authority, within five (5) Business Days of the date of delivery or receipt, as the case may be; and

(c) thereafter, diligently pursue all consents or approvals from any such agencies and/or bodies and/or authorities as may be necessary to consummate the transactions contemplated hereby, keeping each other Party duly and timely informed about the relevant process.

4.2 In the event that not all the required antitrust clearances, if any, are issued within four (4) months after the date of this Agreement, then either of the Parties may terminate this Agreement and, in that event, this Agreement (except for the provisions of Articles 11.9 and 11.10) shall cease to have any effect and shall no longer be binding on the Parties.

4.3 In the event that the Antitrust Authority only approves the transactions contemplated hereby imposing specific conditions or restrictions, not satisfactory to Seller or Purchaser, affecting such transactions or any of the Parties, that Party shall have the right to accept or refuse such conditions or restrictions. Should the conditions or restrictions be refused by that Party, the Parties will negotiate in good faith any amendments to this Agreement which may be necessary to make the transactions contemplated hereby suitable for both of them, in view of the conditions or restrictions imposed. If a new agreement is not reached within one month following the date on which the Antitrust Authority has notified its conditional favorable decision, the affected Party may choose not to complete the said transactions, without any liability *vis-à-vis* the other Party. In this case, this Agreement (except for the provisions of Articles 11.9 and 11.10) shall cease to have any effect and shall no longer be binding on the Parties.

4.4 Should Purchaser come to the conclusion, that no filings with Antitrust Authorities are required, then the Purchaser shall make available to the Seller letters from Purchaser's counsel stating the non-necessity of any such filings, by and no later than 10th September 2004.

ARTICLE 5

Conditions Precedent to Closing

5.1 **Merger Control Clearances**. Closing shall be subject to the condition precedent that all required merger control clearances are obtained.

5.2 **Board Approvals.** Closing shall be subject to the further conditions precedent that (a) both management boards *(Vorstände)* and both supervisory boards *(Aufsichtsräte)* of RÜTGERS Aktiengesellschaft and its ultimate parent company RAG Aktiengesellschaft, as well as the board of directors of the Seller have all approved this Agreement (the "**Seller's Board Approvals**") and (b) the Purchaser's board of directors shall have approved this Agreement (the "**Purchaser's Board Approval**").

5.3 **Guarantees.** The guarantors as mentioned in the Limited Joinder and Guaranty shall have executed and delivered such Limited Joinder and Guaranty in the form attached as Schedule 5.3.

5.4 **Labor Union Notices and Approvals.** The Seller and the Purchaser shall have notified each labor union required to be notified under any applicable Legal Requirement and shall have met with such labor unions as required under applicable Legal Requirements; in particular, the Seller and the Purchaser shall have fully complied with the procedure provided under Section 47 of Law 428/1990.

5.5 **Customer and Other Approvals**. The written consents, waivers, approvals, licenses and authorizations of (i) Trenitalia and (ii) of other third parties as described in Schedule 5.5 shall have been obtained.

5.6 **Tax Certificate**. Seller shall have delivered to Purchaser the certificate required under Section 10.2.2 of this Agreement.

5.7 **Further Conditions Precedent to Parties' Obligation to Close**. The Parties' respective obligation to sell and purchase the Assets and to pay the Purchase Price and to take the other actions required to be taken by them at the Closing are subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by the Seller or the Purchaser, as the case may be, in whole or in part):

(a) The other Party's representations and warranties in this Agreement shall have been accurate in all material respects as of the date of this Agreement, and shall be accurate in all material respects as of the time of the Closing as if then made (after giving effect to the Supplements to the Schedules in accordance with Section 6.2).

(b) The covenants and obligations that the other Party is required to perform or to comply with pursuant to this Agreement at or prior to the Closing, shall have been duly performed and complied with in all material respects.

5.8 **Pre-Closing**. If all the conditions precedent set forth in Art. 5.1 to 5.6 are fulfilled except the condition precedent in Art. 5.5 (i) (approval of Trenitalia) and Trenitalia takes the position that it will only conduct the approval procedure on the basis of a notarial agreement not subject to conditions precedent except Trenitalia's approval, then the Parties will execute such notarial document (and the date on which they will do so shall hereinafter be referred to as "**Pre-Closing**"). As soon as that condition precedent under Art. 5.5(i) has been fulfilled, the Parties shall proceed to Closing under Article 7.

5.9 **Termination**. This Agreement may be terminated on written notice by either the Seller or the Purchaser if the Closing shall have not occurred on or before the close of business on January 31, 2005, unless such date shall be extended by the mutual written consent of Seller and Purchaser. A Party shall not have the right to terminate this Agreement under Art. 5.9 in the event that the failure to fulfill such conditions precedent shall be due to the failure of that Party to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing. Upon termination under Art. 5.9, this Agreement (except for the provisions of Articles 6.4, 6.5, 11.9 and 11.10) shall cease to have any effect and shall no longer be binding on the Parties.

ARTICLE 6

Covenants

6.1 **Conduct of Seller**. From and after the date hereof, and until the Closing, unless otherwise contemplated by this Agreement or consented to by Purchaser in writing, Seller shall, and shall cause the Subsidiaries to:

(a) conduct the Business in the ordinary and usual course, consistent with past practices;

(b) pay all accounts and trade payables of the Business when they become due and payable in the ordinary course;

(c) continue to insure all insured Assets, whether owned or leased, and use, operate, maintain and repair all such Assets in the ordinary and usual course, consistent with past practice;

(d) use reasonable efforts to preserve its current business organization, keep available the services of its officers, employees, self-employed persons, representatives, suppliers, customers, landlords or any other person or entity having a material business relationship with the Business;

(e) perform in all material aspects all of its obligations under any Contract and refrain from doing any act or omitting to do any act, or permitting any act or omission, that shall cause a breach of any Contract;

(f) maintain and keep the facilities, machinery, equipment and other tangible Assets in normal operating condition and repair, except for ordinary wear and tear, in accordance with past practice;

(g) consult with Purchaser regarding all significant developments, transactions, proposals or agreements relating to the Business and prior to implementing any material operational decision relating to the Business or the Assets;

(h) not (i) enter into or assume any material contract, arrangement, license, lease or other agreement, (ii) enter into or permit any material amendment, waiver, supplement or modification of any Contract; (iii) grant any increase in the compensation (including incentive, bonus or severance) of any employee employed by the Business (other than regularly scheduled increases, which shall not exceed, in the aggregate, the greater of (A) 5% of such employee's compensation prior to the date of this Agreement or (B) any increases according to applicable collective labor agreements) or enter into any new, or amend any current, employment agreement, compensation or benefit plan or arrangement or collective bargaining agreement applicable to any employee of the Business; (iv) not take any action or omit to take any action that would result in a Material Adverse Change;

(i) not (i) incur any Liability on the books or records of the Seller or the Subsidiaries outside the ordinary course of business, consistent with past practice) or (ii) incur or extend the timing of its payment of any payables or other due and accrued Liabilities outside of the ordinary course of business;

(j) not make any distribution of assets to its shareholders;

(k) change any payment terms of, or change any payment practices consistent with past practice; or

(l) grant any Encumbrance upon any of the Assets, except ordinary retention of title in the case of purchases of Assets.

6.2 **Notification and Updates to Schedules**.

(a) Seller and Purchaser shall promptly notify to each other in writing should they become aware of the existence or occurrence of any condition which would make any representation or warranty in this Agreement untrue, any breach of any covenant of Seller or Purchaser in this Agreement or which might prevent or delay the Closing.

(b) Attached hereto is Schedule 6.2(b), which includes a column of schedules to this Agreement entitled "Missing Information" (the "Missing Schedules"). Seller shall provide complete copies of these Missing Schedules to Purchaser on or before September 3, 2004. Purchaser shall be entitled to review and object (but not unreasonably) to any Missing Schedules within five (5) Business Days after Purchaser's receipt of such Missing Schedules. Seller shall provide to Purchaser's satisfaction revised Missing Schedules within three (3) Business Days after Seller's receipt of Purchaser's objections. Upon the agreement of Purchaser, the Missing Schedules, (as revised under this Article 6.2(b)) shall be incorporated into the Schedules to the Agreement. In addition, Schedule 3.6 (the Transfer Agreements) shall be revised and updated as agreed by counsel to the parties on or before the Closing. Schedule 6.6 shall be updated by September 3, 2004 to include the Subsidiaries' performance bonds.

(c) Purchaser shall provide Schedule 5.5 to Seller on or before September 3, 2004; provided, that, such Schedule may only include consents where the third party's approval is a legal or contractual requirement to the transfer of the applicable Contract from the Seller to the Purchaser.

(d) Seller shall provide updates of Schedules 3.1(a) (assets), 3.1(b) (inventory) and 3.1(g) (accounts receivable) (the "Financial Schedules") to the Purchaser to reflect changes in those schedules incurred in the ordinary course of business pursuant to Article 6.1 from the date of this Agreement to the Closing, which shall automatically be deemed to update and replace the prior Financial Schedules.

(e) with respect to any other schedules attached to or contemplated under this Agreement (the “Other Schedules”), Seller may provide updated Other Schedules to Purchaser from time to time on or before Closing. Purchaser shall be entitled to review and object (but not unreasonably) to any revised Other Schedule. Purchaser’s consent shall be required before any revised or updated Other Schedules shall be incorporated into the Schedules and the Agreement.

6.3 **No Negotiation**. From the date of this Agreement until the end of 31st August 2004, and then again from the moment in which Purchaser communicates to Seller in writing that Purchaser has obtained Purchaser’s Board Approval, neither the Seller nor any of its Affiliates shall directly or indirectly solicit, encourage or discuss any inquiry, proposal or offer from any person or entity relating to any business combination transaction involving the Seller, the Business or the Assets, including sale of the Seller’s stock, the merger or consolidation of or the sale of the Business or any of the Assets (other than in the ordinary course of business), or participate in any discussions or negotiations relating to any such transaction or consider the merits of any such transaction.

6.4 **Board Approvals of Purchaser.** If by the close of 19th September 2004 Purchaser neither notifies Seller that it has obtained Purchaser’s Board Approval nor that Purchaser’s board of directors has disapproved of this Agreement within the meaning of Article 5.2, then the condition precedent to Closing consisting in such board approval shall be deemed not to have been fulfilled, and Purchaser shall pay Seller a compensation of EURO five hundred thousand (500,000).

6.5 **Board Approvals of Seller.** If Purchaser has obtained Purchaser’s Board Approval by the close of 19th September 2004, but Seller has neither notified Purchaser that Seller has obtained all of Seller’s Board Approvals or that Seller has obtained part of Seller’s Board Approvals and that Seller is not required to obtain any remaining Seller’s Board Approvals in accordance with Seller’s and its Affiliates’ organizational documents or under applicable Legal Requirements by the close of 24th September 2004, then the condition precedent to Closing consisting in such board approval shall be deemed not to have been fulfilled, and Seller shall pay to Purchaser a compensation of EURO five hundred thousand (500.000). In the case of the aforementioned sentence the Seller shall be bound the following further covenant: Should Seller sell part or all of the Business (other than sales in the ordinary course of business) to a third party prior to 30th September 2005, then the Seller shall pay to Purchaser the higher of (i) € 1 (one) Million or (ii) the excess amount of the gross proceeds of the sale to the third party over € 28 (twenty eight) million.

6.6 **Replacement of Performance Bonds.** The Seller or the Subsidiaries have in relation to the Business, provided for certain performance bonds to be issued by several banks, as shown in the Schedule 6.6, which relate to ongoing obligations under the Contracts being transferred to the Purchaser under this Agreement. Purchaser shall use its commercially reasonable efforts (subject to the consent and approval of the customers of the Business) to replace by Closing these performance bonds with similar performance bonds, as required under the respective Contracts being transferred to Purchaser at Closing to which the performance bonds pertain. In the event that Purchaser is unable to obtain the consent of any third party to replace any performance bonds (the "remaining performance bonds"), Seller will continue to maintain the applicable remaining performance bond until the later of (1) six months from the Effective Date and (2) the date on which Purchaser is able to obtain a replacement letter of credit or performance bond. Purchaser shall indemnify and hold Seller harmless for (a) Seller's out-of-pocket expenses related to maintaining such remaining performance bonds and (b) any draws made by the respective third parties on the remaining performance bonds for reasons or causes which have occurred after the Closing.

6.7 **Mutual Cooperation.** Each Party shall use its reasonable best efforts and closely cooperate with the other in order to make the Closing Conditions set forth in Articles 5.1, 5.3 through 5.6 happen as quickly as possible in accordance with Art. 7.3.

6.8 **Access, Investigation and Further Information**. Between the date of this Agreement and the Effective Date, and upon reasonable notices, Seller shall, and shall cause the Subsidiaries to, afford Purchaser and its representatives and agents access upon reasonable notice to the Seller's and the Subsidiaries' facilities, personnel, books, records, agents, representatives and Seller shall, and shall cause its Subsidiaries to furnish any information regarding the Business or the Subsidiaries as the Purchaser may request. In addition, Seller shall provide to Purchaser on a monthly basis, Seller's management reports relating to the Business. On or before August 30, 2004, Seller shall provide to Purchaser the financial statements of RBV and RAG (as defined in the Limited Joinder and Guaranty).

6.9 **Defence against Warranty/Product Liability.** Any warranty or product liability claim related to products of the Business delivered to third parties prior to Closing will be handled by Purchaser on behalf of the Seller. Any external costs of Purchaser incurred under this Art. 6.9 will be refunded by Seller. Any internal direct costs of Purchaser incurred under this Art. 6.9 (such as material, labor and consumable goods) plus a 15% surcharge shall be refunded by Seller.

ARTICLE 7

Closing

7.1 **Closing**. The Closing shall take place at the offices of KPMG in Milan, Via Vittor Pisani 25, within five (5) Business Days of receipt by any of the Parties of the notification of the fulfillment or waiver of the conditions precedent under Article 5 or on a date mutually agreed by the Parties, but in no event later than the last day of the month in which the conditions in Article 5 are satisfied. At Closing the Parties shall take the necessary steps to duly and validly effect the transfer to Purchaser of the Assets in the form and manners provided by applicable law provisions.

7.2 **Closing Actions**. At Closing,

(a) the Purchaser and Seller shall execute, substantially in the form shown in Schedule 3.6, the Transfer Agreement and such other deeds, certificates, instruments necessary to convey, assign or transfer the Assets and the Assumed Liabilities in accordance with applicable Legal Requirements;

(b) the Purchaser shall pay to the Seller by irrevocable wire transfer the Provisional Purchase Price set forth in Article 3.3;

(c) the Seller shall have caused the members of the management boards of ABEX Rail S.A. ("conseil d'administration") and of Rütgers Rail GmbH ("Geschäftsführung") as nominated by Purchaser five Business Days before Closing to resign and Seller shall cause the minority shareholders of Abex Rail S.A. to transfer the shares held by them to the persons notified by Purchaser in writing five Business Days prior to Closing to Seller;

(d) the Seller shall hold on Purchaser's timely request a shareholders' meeting at ABEX Rail S.A. in order to change the company name.

(e) the Seller shall hold a shareholders' meeting at Rütgers Rail GmbH in order to change the company name in such a way that it shall no longer contain the word "Rütgers".

(f) the Seller shall deliver a certificate that (i) Seller's representations and warranties in this Agreement shall have been accurate in all material respects as of the time of the Closing as if then made, (ii) the covenants and obligations that the Seller is required to perform or to comply with pursuant to this Agreement at or prior to the Closing, shall have been duly performed and complied with in all material respects, and (iii) each consent required under Section 5.5 remained in effect and has not been withdrawn or otherwise terminated since date of the Pre-Closing.

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

7.4 **Timing and Effectiveness**. All of the actions, executions, productions, remittances and deliveries under the above Articles 7.1, 7.2 and 7.3 provided to be taken and made at Closing, shall take place simultaneously, meaning that no action, execution, production, remittance and delivery shall be effective unless all other actions, executions, productions, remittances and deliveries shall be fully and regularly performed.

ARTICLE 8

Representations and Warranties

8.1 **Representations and Warranties by Purchaser**. Purchaser hereby represents and warrants to Seller as follows, in each case as of the date of this Agreement and as of Closing:

8.1.1 Organization, Qualification and Corporate Power. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, with corporate powers and authority to own properties and to conduct its business as currently conducted.

8.1.2 Power and Authority of Purchaser. Purchaser has taken all required corporate action to enter into this Agreement and to consummate the transactions contemplated herein.

8.1.3 Binding Effect. This Agreement has been duly executed by Purchaser and constitutes the legal, valid and binding obligation of Purchaser, enforceable in accordance with its terms. Purchaser is not required to give any notice to, make any filing with, or obtain any authorization, consent or approval of any government or governmental agency in order to consummate the transactions contemplated by this Agreement, except as contemplated by this Agreement.

8.1.4 Financial capability. Purchaser hereby represents and warrants to have adequate and sufficient financial capability to carry out the transaction contemplated herein.

8.2 **Representations and Warranties by Seller**. Seller hereby represents and warrants to Purchaser as follows, in each case as of the date of this Agreement and as of Closing, provided, however, that representations and warranties which are made as of one of those dates only, or as of a different specific date, shall be true and correct only as of such date:

8.2.1 Organization, Qualification and Corporate Power. Each of Seller and the Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. Each of Seller and the Subsidiaries is duly authorized to conduct business and is in good standing under the laws of each jurisdiction in which the nature of its business or the ownership or leasing of its properties requires such qualification.

8.2.2 Power and Authority of Seller. Seller has full power and authority to enter into this Agreement and to consummate the transactions contemplated herein.

8.2.3 Binding Effect; No Conflict. This Agreement has been duly executed by Seller and constitutes the legal, valid and binding obligation of Seller, enforceable in accordance with its terms. The execution, delivery and performance of this Agreement will not (with notice or lapse of time or both) violate, conflict with or result in a breach of (a) Seller's or the Subsidiary's organizational documents, (b) any Contract or (c) any Legal Requirement applicable to the Business. Except as set forth in Schedule 8.2.3 none of Seller nor any Affiliate or any of the Subsidiaries is required to give any notice to, make any filing with, or obtain any authorization, consent or approval of any government or governmental agency in order to consummate the transactions contemplated by this Agreement.

8.2.4 Assets and Operation of Business.

(a) Except as set forth in Schedule 8.2.4 (a), the Assets constitute all of the assets, tangible and intangible, of any nature whatsoever, necessary to operate the Business in the manner presently operated by Seller and include all operating assets of the Business. There are no assets or properties used in the operation of the Business and owned by any person or entity (including any Affiliate) other than Seller that will not be transferred, conveyed, leased or licensed to Purchaser at Closing, except for the leased or licensed assets specifically listed on Schedule 8.2.4(b) and those which may be subject to customary title retention agreements listed or arrangements described on Schedule 8.2.4(b), and except for the case of molds owned by customers. The Assets

are adequate for the purposes for which such assets are currently used or are held for use, and are in reasonably good repair and operating condition (subject to normal wear and tear and subject to the practice of Seller to not constantly keep in working order machines and molds which are, for a certain period of time, not used) and, to Seller's Knowledge, there are no facts or conditions affecting the Assets which could, individually or in the aggregate, interfere in any material respect with the use, occupancy or operation of the Assets as currently used, occupied or operated, or their adequacy for such use.

(b) Except for leased or licensed Assets listed on Schedule 8.2.4(b), Seller owns good and transferable title to all of the Assets free and clear of any charge, claim, community or other marital property interest, condition, equitable interest, lien, option, pledge, security interest, mortgage, right of way, easement, encroachment, servitude, right of first option, right of first refusal or similar restriction, including any restriction on use (other than those arising under administrative and general real estate law), transfer, receipt of income or exercise of any other attribute of ownership ("**Encumbrances**"), and at the Closing will transfer all of the Assets to the Purchaser free and clear of any Encumbrances.

(c) All accounts receivable of the Business are listed on Schedule 3.1 (g) as of 30th June 2004 and shall be updated as of the Effective Date, which such Schedule shall include the name of owing party, the amount due, and the date the amount was billed. All accounts receivable of the Business represent or will represent valid obligations arising from sales actually made or services actually performed by Seller or the Subsidiaries in the ordinary course of business. Except as set forth on Schedule 8.2.4(c), there is no contest, claim, defense or right of setoff, other than returns in the ordinary course of business, under any contract with any account debtor of an account receivable relating to the amount or validity of such account receivable. Seller has no Knowledge of any fact or circumstance which would result in the incollectability of any note or account receivable.

(d) All Inventories of the Business are listed on Schedule 3.1(b) as of the date of 30th June 2004 and shall be updated as of the Effective Date. All Inventories consist of a quality and quantity usable and, with respect to finished goods, saleable, in the ordinary course of business of the

Business, and do not include obsolete or discontinued items. For purposes of the foregoing "obsolete" items shall mean any items that have not moved within the past two years and which are not required to be held under any Contract or Subsidiary Contract. Except for the cases of customary title retention agreements and arrangements listed or described on Schedule 8.2.4(b), neither Seller nor any of the Subsidiary is in possession of any inventory not owned by Seller or such Subsidiary, including goods already sold. The accruals on the Financial Statements and on the Effective Date Balance Sheet relating to any write-down of Inventory was made in accordance with the Accounting Principles, consistent with past practice.

(e) The Seller and the Subsidiaries have conducted the Business only through the Seller and the Subsidiaries or their Affiliates and no part of the Business has been operated by any entity other than Seller and the Subsidiaries or their Affiliates.

(f) Schedule 8.2.4(f) sets forth, for each Subsidiary, the number of authorized shares of each class of its capital stock, the number of issued and outstanding shares of each class of capital stock, and its officers, directors or other managers (the "**Subsidiary Equity Interests**"). Seller owns, and as of Closing shall own all of the issued and outstanding Subsidiary Equity Interests and shall have, good and valid title to the Subsidiary Equity Interests free and clear of any claim, right, encumbrance, pledges, charges, security interests, pre-emptive rights, call rights, other third party rights, assessment or other adverse interest of any kind and nature whatsoever. Neither Subsidiary owns, directly or indirectly, any equity or other ownership interest in any other person or entity, and neither Subsidiary is subject to any obligation or requirement to provide funds to or make any investment in, any other person or entity.

8.2.5 Financial Statements.

(a) The pro-forma consolidated Financial Statements have been prepared in accordance with Italian Accounting Principles, applied on a basis consistent with the accounting principles used in the preparation of the relevant financial statements for the preceding financial year (unless otherwise disclosed in the notes to such financial statements). The other Financial Statements have been prepared in accordance with applicable national

Accounting Principles, applied on a basis consistent with the accounting principles used in the preparation of the relevant financial statements for the preceding financial year (unless otherwise disclosed in the notes to such financial statements). The pro forma consolidated Financial Statements are true and correct in all material respects, and fairly present the consolidated financial condition and results of operations of the Business as of, and with respect to, the financial year ending on, December 31, 2003. The other Financial Statements are true and correct in all material respects, and fairly present the financial condition and results of operations of the respective companies as of, and with respect to, the financial year ending on, December 31, 2003.

(b) Neither Seller nor the Subsidiaries have any Liabilities arising out of or related to the Business: except as set forth (A) in Schedule 8.2.5 (b), (B) in the Financial Statements, or (C) which have been incurred in the ordinary course of business since the Reference Date. Except for the Liabilities listed in the foregoing sentence neither Seller nor the Subsidiaries have any Liabilities which will result in a Material Adverse Change.

8.2.6 Product Liability. Except as disclosed under Schedule 8.2.6 hereto, as of the date hereof,

(a) no product liability claims relating to any products of the Business exceeding Euro 50,000 in the aggregate are pending, or to the Seller's Knowledge, threatened, against the Seller or its Affiliates and, to Seller's Knowledge, there is no basis for the same;

(b) the Business has not received any order from any governmental authority to recall any of the products manufactured and delivered by the Business, and there is no pending or to Seller's Knowledge, threatened, investigation by any governmental authority relating to any of the products manufactured by the Business; and

(c) the products manufactured and delivered by the Business during the thirty-six (36) months prior to the date hereof do not have any design or serial defects which may reasonably be expected to result in any claim or order as set forth in paragraphs (a) and (b) above.

8.2.7 Subsequent Events.

(a) Except as disclosed under Schedule 8.2.7 (a) hereto, since June 30, 2004 until the Effective Date, the Business has been conducted only in the ordinary course of business consistent with past practices.

(b) Since June 30, 2004 until the Closing, no Material Adverse Change has occurred and no event has occurred or circumstance exists that may result in a Material Adverse Change.

8.2.8 Taxes.

(a) All Tax Returns required to be filed with any Tax Authority with respect to any Tax Period Before Effective Date by or on behalf of the Business and each Subsidiary were filed when due;

(b) Neither Seller nor any Subsidiary is involved in any Tax audit or investigation relating to any Tax Period Before Effective Date.

(c) Seller and each Subsidiary has timely paid all Taxes shown as payable by it on any valid and enforceable Tax assessment notice issued by any Tax Authority or on an Tax Return filed by it with any Tax Authority.

8.2.9 Real Property.

(a) Seller owns the real property indicated in Schedule 3.1(m) hereto (hereinafter referred to as the "**Owned Real Property**").

(b) There is no real property leased by Seller and Subsidiaries other than in Aachen, Barcelona, Essen, Vierzon and Senlis (the last leased until 30th September 2004) (the "**Leased Real Property**"), as listed on Schedule 8.2.9(b). The Seller and the Subsidiaries use no other real property in connection with the operation of the Business other than the Owned Real Property and the Leased Real Property.

(c) Title:

The Owned Real Property is fully owned by RÜTGERS Rail SpA and duly identified at the appropriate Land Registries ("*Conservatoria dei Registri Immobiliari*") according to the laws and regulations in force. Except as disclosed under Schedule 3.1(m) hereto, the Owned Real Property is free and clear of any mortgage, pledge, lien, encumbrances,

privileges, prejudicial registrations, third parties' rights, pending claims and liabilities in general, manifest and non-apparent easements, obligations and/or burdens also connected to town-planning and/or building plans, or other security interest. Except as disclosed under Schedule 3.1(m) hereto, there are no outstanding options or rights of first refusal to purchase the Owned Real Property or any interest therein.

(d) Building Permits and Zoning Procedure:

Seller has applied for and validly obtained any and all material building permits for the existing buildings; to the Seller's Knowledge, the Real Property has been built, in all respects, in compliance with any such building permits and, as of the date hereof, no such building permits have been challenged and/or no procedure shall have been commenced with the purpose to repeal any building permit.

(e) Town-planning burdens:

RÜTGERS Rail SpA, has paid and borne any primary or secondary town-planning burdens ("*oneri di urbanizzazione primaria e secondaria*"), assessed by and, due to the local Municipality and/or other public authorities and/or to the authorities involved in the issuance of the building permits. All said town-planning works affecting Seller have been realized in all material respects, in compliance with all due provisions in force and the building permits concerning such works.

(f) Certificates:

Except as disclosed under Schedule 8.2.9 (f) hereto, Seller has obtained any and all certificates required by applicable law provisions, as well as any material certificate, approval, consent, license, authorization or permit required by law to opening and running in the Real Property its respective business activities

8.2.10 Litigation

(a) Except as disclosed under Schedule 8.2.10 (a) hereto, as of the date hereof, none of the Business, the Assets nor the Subsidiaries is subject to any outstanding injunction, judgment, order, decree or ruling issued by any court, arbitrators or other governmental authority ("**Order**"). Except as set forth in Schedule 8.2.10(a), Seller and each Subsidiary is in compliance with all of the terms and requirements of each Order and no event has occurred or

circumstance exists that is reasonably likely to constitute or result in (with or without notice or lapse of time) a violation of or failure to comply with any term or requirement of any Order. Neither the Seller nor any Subsidiary has received any notice regarding any violation of, or failure to comply with, any Order.

(b) Except as disclosed under Schedule 8.2.10 (b) hereto, as of the date hereof, there is no pending or, to Seller's Knowledge, threatened Proceeding by or against the Seller or any Subsidiary, that otherwise relates to or may affect the Business or any of the Assets or the Subsidiaries; or that challenges, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the transactions contemplated under this Agreement. To Seller's Knowledge and except as set forth on Schedule 8.2.10(b), no event has occurred or circumstance exists that is reasonably likely to give rise to or serve as a basis for the commencement of any such Proceeding.

(c) Except as set forth in Schedule 8.2.10(c), the Business is being conducted, and the Subsidiaries are, in full compliance with each Legal Requirement that is applicable to the conduct or operation of the Business, the ownership or use of the Assets or the Subsidiaries. Neither Seller nor any Subsidiary has received any notice from any governmental authority or any other person or entity regarding (A) any violation of, or failure to comply with, any Legal Requirement or (B) any Liability on the part of the Business or the Subsidiaries to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

8.2.11 Insurance. Schedule 8.2.11 hereto lists all insurance policies to which Seller or any Subsidiary is a party or which relate to the Business or the Assets. Such policies are in full force and effect in accordance with their respective terms and will remain in full force and effect until Closing. The Seller and the Subsidiaries have not examined which policies end as a consequence of Closing, and are not liable for the termination of any policy which expires, by its terms, on the consummation of the transactions under this Agreement. Neither the Seller nor the Subsidiaries have done or omitted to do any action which might render such policies or any of them void or voidable. The maximum provided for in each policy covers the entire value of the insured assets and is adequate to the insured risks and liabilities. No claim under any policy of insurance taken out in connection with the Business, or the Assets is outstanding and there are no circumstances likely to give rise to such a claim.

8.2.12 Licenses and Permits. Except as disclosed under Schedule 8.2.12 hereto, each Seller and Subsidiary has

(a) all licenses, permits, registrations or other governmental authorizations which are required or necessary to the conduct of the Business or the Assets or otherwise applicable to the Subsidiaries;

(b) all of such licenses, permits, registrations and other governmental authorizations are in full force and effect and shall remain in full force and effect; and

(c) no violation exists in respect of any such licenses, permits, registrations and other governmental authorizations, and no Proceeding is pending or, to the Seller's Knowledge, threatened against Seller or any Subsidiary to revoke or limit any such license, permit, registration or other governmental authorization.

8.2.13 Environmental Matters. Except as disclosed under Schedule 8.2.13 hereto, and with respect to the Business or the Assets (or prior conduct of the Business by any Seller Party (for purposes of this Section, the term "**Seller Party**" includes the Seller, each Subsidiary and any person or entity that was, in whole or in part, a predecessor to the Seller or the Subsidiaries:

(a) No Seller Party has received notice of actual or threatened Liability under any Environmental Law from any governmental authority or any other person or entity and there are no facts or circumstances that could form the basis for the assertion of any claim against any Seller Party under any applicable Environmental Law.

(b) No Seller Party has entered into or agreed to enter into, and no Seller Party intends to enter into, any consent decree or Order, and no Seller Party is subject to any Order relating to compliance with, or the cleanup of Hazardous Materials under, any applicable Environmental Law.

(c) No notice, notification, demand, request for information, citation, summons or order for an administrative or judicial proceeding has been received by any Seller Party; and no complaint has been filed, no penalty has been assessed and no Proceeding is pending against or, to the Seller's Knowledge of the Seller Parties, threatened by any governmental authority or other person or entity against any Seller Party arising out of any Environmental Law.

(d) No Seller Party is subject to any Liability, incurred or imposed or based upon any provision of any applicable Environmental Law or arising out of any act or omission of any Seller Party, or their employees, agents or representatives or arising out of the ownership, use, control or operation by any Seller Party of any plant, facility, site, area or property (including without limitation, any plant, facility, site, area or property currently or previously owned or leased by any Seller Party or any waste disposal site not owned, leased or operated by a Seller Party) from which Hazardous Materials were Released into the Environment, and there are no facts, events, conditions, situations or set of circumstances that could reasonably be expected to result in or be the basis for any such Liability.

(e) No polychlorinated biphenyls, radioactive material, lead, asbestos-containing material, incinerator, sump, surface impoundment, lagoon, landfill, septic, wastewater treatment or other disposal system or underground storage tank (active or inactive) is or has been present at, on or under any Owned or Leased Real Property or in any Asset or any property now or previously owned, leased or operated by a Seller Party other than in compliance with applicable Legal Requirements.

(f) No Seller Party has imported, manufactured, stored, used, operated, transported, treated or disposed of any Hazardous Materials, other than in compliance with all applicable Environmental Law.

(g) There has been no environmental investigation, study, audit, test, review or other analysis conducted, of which any Seller Party has Knowledge, in relation to any Asset or other property or facility now or previously leased by any Seller Party has not been made available to Purchaser.

The following terms shall have the following meanings for purposes of this paragraph:

(i) “**Environment**” means any surface or ground water, drinking water supply, soil, surface or subsurface strata or medium, and the ambient air.

(ii) “**Environmental Law**” means any and all Legal Requirements concerning environmental, health or safety matters (including, but not limited to, the clean-up standards and practices for Hazardous Materials) relating to buildings, equipment, or the Environment.

(iii) **Hazardous Materials**” mean any waste, pollutant, contaminant, hazardous substance, toxic, ignitable, reactive or corrosive substance, hazardous waste, special waste, industrial substance, by-product, process intermediate product or waste, petroleum or petroleum-derived substance or waste, chemical liquids or solids, liquid or gaseous products, or any constituent of any such substance.

(iv) “**Release**” or “**Released**” means to spill, leak, pump, pour, emit, empty, discharge, inject, escape, leach, dump or dispose into the Environment.

8.2.14 Employees and Self-Employed Persons. Schedule 8.2.14 hereto contains (a) a list of each employee of the Business and each Subsidiary, (b) each employment and other contractual arrangements in place with each employee or consultant of the Business going beyond the employment letter and (c) any contract or agreement relating to the Business with unions, workers councils and other employee representatives (hereinafter referred to as the “**Collective Agreements**”).

(a) Each employee of the Business and each Subsidiary has been and is currently managed in full compliance with all applicable Legal Requirements and all Collective Agreements, and to this regard no Proceedings are pending, or to Seller’s Knowledge, threatened, against Seller or any Subsidiary before any court, arbitrator or public authority as of the date hereof.

(b) All social security, taxes and other compulsory contributions required to be paid by Sellers, any of its Affiliates or the Subsidiaries with respect to the employees and self-employed persons of the Business have been regularly paid in full by Seller or its Affiliates or the Subsidiaries and any severance indemnity and other indemnities due to the employees of the business by Seller, its Affiliates, or the Subsidiaries in accordance with all applicable Legal Requirements or national applicable Accounting Principles have been set aside in reserve accounts and are properly recorded on the Financial Statements in accordance with national applicable Accounting Principles.

(c) The value of the aggregate accrued vacation time and pay and accrued bonus pay of the employees of the Seller and

the Subsidiaries does not exceed the amounts accrued in the financial statements of the Sellers and the Subsidiaries as of June 30, 2004 and on the Effective Date Balance Sheet. There are no more than 11 employees of the Seller and the Subsidiaries who have been granted individually negotiated bonus schemes as described in the Schedule 8.2.14(c).

(d) Except as disclosed under Schedule 8.2.14 (d) hereto, no bonus or severance shall become due and payable by the Seller or any Subsidiary to any of their employees and self-employed persons under any Legal Requirement or any agreement listed on Schedule 8.2.14 as a result of this Agreement or the consummation of the transaction contemplated herein or otherwise.

(e) Except as disclosed under Schedule 8.2.14 (e) hereto or required under applicable Legal Requirements, none of the Seller, the Subsidiaries or its Affiliates has made any pension commitment to any of the current or former employees of the Business or the Subsidiaries.

(f) Seller and its Subsidiaries (and each of Seller's Affiliates and predecessors) have made any and all contributions required to be made by them to any applicable workers compensation or other funds, including without limitation, the Italian National Institute for Insurance Against Incidents on Work.

(g) To Seller's Knowledge, none of the employees of the Business or the Subsidiaries has declared his or her intention to terminate employment with the Business in connection with the consummation of the transactions contemplated under this Agreement.

(h) Neither Seller nor the Subsidiaries have engaged any consultants or other individuals to provide services to the Business who should have been classified or treated as an employee in any way under any applicable Legal Requirement.

(i) No person can claim that he or she is an employee of Seller or the Subsidiaries, except for those employees listed on Schedule 8.2.14.

8.2.15 Labor Relations. Except as set forth in Schedule 8.2.15 hereto, as of the date hereof no allegation, charge or complaint of age, disability, sex or race discrimination or similar charge has been made or threatened in writing against the Seller or any Subsidiary.

Upon execution of this Agreement, the Seller and the Subsidiaries, notified each labor union required to be notified under any applicable Legal Requirement and shall meet with such labor unions as required under applicable Legal Requirements. As of the Closing Date, the Seller shall have fully complied with the procedure provided under Section 47 of Law 428/1990.

8.2.16 Intellectual Property Rights, Software. The Seller and each Subsidiary owns or are licensed to use all patents, patent applications, trademarks, trademark applications, tradenames, tradename applications, know-how, trade secrets, technologies, and other intellectual property or proprietary rights and all computer software (including data bases and related documentation) (hereinafter collectively referred to as the "**IP Rights**") which are listed in Schedule 8.2.16 hereto. The IP Rights listed on Schedule 8.2.16 are owned or licensed by Seller and the Subsidiaries are in full force and effect and constitute all of the IP Rights necessary to conduct the Business as it is currently being conducted. To Seller's Knowledge no entity is interfering with or infringing, and no entity has misappropriated any IP Rights owned by Seller or the Subsidiaries. None of the IP Rights owned by Seller or the Subsidiaries infringes upon, is in misappropriation of or otherwise conflicts with any patent, patent application, trademark, trademark application, copyright, trade secret or other intellectual property right of any third party, and, to Seller's Knowledge, none of the IP Rights licensed by Seller or the Subsidiaries infringes upon, is in misappropriation of or otherwise conflicts with any patent, patent application, trademark, trademark application, copyright, trade secret or other intellectual property right of any third party. Except as set forth in Schedule 8.2.16, no consent or approval of any third party is required in connection of the transfer of the IP Rights to Purchaser hereunder.

8.2.17 Contract; No Defaults. Schedule 3.1 lists each Contract to which the Seller is a party and which relates to the Business. Each Contract listed in Schedule 3.1(e) is in full force and effect and is valid and enforceable in accordance with its terms. Except for the Contracts listed on Schedules 3.1(e) there are no other agreements, contracts, commitments or other instruments which are material to the Business or the Subsidiaries. Except as set forth on Schedule 8.2.17, Seller and each Subsidiary has at all times been in compliance with all applicable terms and requirements of each Contract. No event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with or result in a breach of, or give the Seller or any Subsidiary or other person or entity the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or payment under, or to cancel,

terminate or modify, any Contract. No event has occurred or circumstance exists under any Contract that (with or without notice or lapse of time) would cause the creation of any Encumbrance, on the Assets.

8.2.18

(a) Except for the performance bonds listed in Schedule 6.6 and except for the indebtedness of Seller to Deutsche Bank (which is not being assumed by Purchaser) which is guaranteed by RÜTGERS AG, none of the obligations or liabilities of the Business or of Seller or the Subsidiaries incurred in connection with the operation of the Business is guaranteed by or subject to a similar contingent obligation of any other entity (including any Affiliate), and there are no outstanding letters of credit, surety bonds or similar instruments of Seller, or any of Seller's Affiliates in connection with the Business or the Assets. The Subsidiaries do not have any indebtedness (except as set forth on Schedule 6.6) have not agreed to guarantee any obligation of other person (including any Affiliates of Seller).

(b) Schedule 8.2.18(b) sets forth the names of the material customers each of Seller's (and the Subsidiaries') friction and interior business during the six month period ended 30th June 2004 and the twelve-month period ended 31st December 2003. The amount for which each such customer was invoiced during such period shall be provided in accordance with Section 6.2. Neither Seller nor any of the Subsidiaries has received any notice or has any reason to believe that any significant customer of the Business has any intention to no longer be a customer of the Seller or its Subsidiaries taking into account the specific characteristics of the railway business, including for the reason in each case after the consummation of the transactions contemplated hereby. To the Seller's Knowledge, no customer of the Business has otherwise threatened to take any action described in the preceding sentence as a result of the consummation of the transactions contemplated this Agreement.

8.2.19 [INTENTIONALLY DELETED.]

8.2.20 Neither Seller nor any Subsidiary has any knowledge of any fact that has specific application to the Business (other than general economic or industry conditions) and that may result in a Material Adverse Change that has not been set forth in this Agreement.

8.2.21 The Subsidiaries have not produced, distributed or sold any asbestos containing materials nor have they assumed, voluntarily or otherwise, any Liability for asbestos containing materials from any predecessor company or other third party.

ARTICLE 9

Damages for the Breach of Seller's Representations & Warranties, and certain other Obligations of the Seller

9.1 Seller shall indemnify and hold harmless Purchaser against and from any and all costs, losses, damage, Liabilities and expenses including reasonable professional fees and out-of-pocket costs of investigation, litigation, settlement, judgement and interests (hereinafter collectively referred to as the "**Losses**") incurred or suffered by Purchaser arising from or by reason of (i) any breach of any representation or warranty of Seller contained in this Agreement, (ii) any breach of any covenant of Seller contained in this Agreement, (iii) any Excluded Liability, and (iv) from or by reason of any use, on or prior to the Effective Date, of asbestos by the Business, Seller or the Subsidiaries or their respective Affiliates or predecessors (including without limitation, products liability claims and premises liability claims made by any persons).

9.2 **The Extent and Limits of Seller's Liability**.

9.2.1 General Principles on the Extent and Limits.

(a) No Losses shall give rise to any Liability of Seller if the Purchaser has not given the Seller first the opportunity to remedy the breach within a reasonable period of time (which shall be, in any event, no more than 20 Business Days) after such breach was notified to Seller by Purchaser as set forth by this Agreement.

(b) The Sellers shall not be liable for lost profits incurred by the Purchaser.

(c) The Sellers' liability will be subject to the limitations under Section 1227 of the Italian Civil Code.

(d) The Purchaser's right to indemnity shall in no way be limited by (i) any inspection, survey, audit and access to books and records of the Business which the Purchaser may directly or through its consultants have conducted through Closing; or (ii) the knowledge that the Purchaser may have as of Closing of the existence of facts, events, omission or documents which may be in breach of the Seller's representations and warranties or in any event give rise to the Seller's indemnification commitment.

9.2.2 Extent and Limits of the Amount of Seller's Liability.

(a) Seller shall only be liable to Purchaser for any Losses if the aggregate amount of the Losses exceeds the sum of Euro Two Hundred Fifty Thousand (250,000 Euro). In the event that the aggregate Losses equal or exceed such amount, then Purchaser shall be entitled to recover the full amount of such Losses, including the first 250,000 Euro. Any single Loss or series of related Losses which do not exceed the amount of Euro 15,000 (Fifteen thousand Euro) shall be disregarded for the calculation of the aggregate amount of Euro 250,000 basket. The foregoing limitations shall not apply to (a) any Losses under Art. 9.1(iv), and no Losses under Art. 9.1 (iv) shall be included in the calculation of the Euro 250,000 basket and (b) any Losses arising out of or related to any Retained Liabilities.

(b) The maximum amount of Seller's aggregate liability for Losses is limited to (i) a cap of EURO fifteen million (€ 15,000,000) for any Losses within the meaning of Section 9.1 (iv) and Art. 8.2.21 and (ii) an independent cap of EURO six million (€ 6,000,000) for any other Losses under Article 9.1. The foregoing limitations shall not apply to any Losses arising out of or relating to Retained Liabilities.

(c) Any amount(s) due by Seller pursuant to the preceding provisions shall be reduced by any payment actually received by Purchaser from a third party, including any insurance company under any applicable insurance policies, in relation to the subject matter of the relevant claim.

9.2.3 Extent and Limits of the Seller's Liability in Time. Seller's representations and warranties under this Agreement (other than representations and warranties set forth in Section 8.2.6 (relating to Product Liability), Section 8.2.8 (relating to Tax matters), Section 8.2.13 (relating to Environmental matters), Section 8.2.14 (Employees and Self-Employed Persons) and Section 8.2.15 (Labor Relations), shall survive for a period of twenty-four (24) months after Closing. The representations and warranties made by Seller in Sections 8.2.6, 8.2.8, 8.2.13, 8.2.14 and 8.2.15 shall survive for a period of five years after Closing. The representations, warranties and covenants relating to asbestos shall survive for 15 years after Closing. Purchaser shall be deemed to have complied with the respective limitation period, if a written notice according to Art. 9.3 (a) has been served within such term.

9.3 **Handling of Third Party Claims**. If any event occurs which might give rise to Seller's liability under paragraph 9.1 or under any other provision of this Agreement, the following provisions shall apply:

(a) Within thirty (30) days from the date on which Purchaser has actual knowledge of a claim for which indemnification may be sought, or, in case of any claim, action, suit or proceeding asserted or initiated against Purchaser by a third party (hereinafter referred to as a "**Third Party Claim**"), within any shorter term required to enable Seller to participate in the relevant defense within the applicable period available for an appeal or other legal remedy, Purchaser shall give written notice to Seller of such claims providing all reasonable information and documentation relating thereto and shall specify all amounts the payment of which is requested by Purchaser in connection therewith.

(b) Seller shall have the right to participate in the defense against Third Party Claims at its own costs. Purchaser undertakes to keep Seller fully and timely informed of all aspects of the proceedings regarding the Third Party Claims, and to timely inform Seller of and let Seller participate in all hearings that may be held in such proceedings and in all meetings that may be held with the third party or their advisers.

(c) As an alternative to a mere participation in the defense according to Article 9.3 (b), Seller has the right to decide to control the defense of any Third Party Claim, designating one or more attorney(s) of its choice, in which case the Purchaser undertakes to grant such attorney(s) necessary powers; provided, however, that (i) the Seller's attorney(s) shall be reasonably satisfactory to Purchaser and the (ii) the Purchaser shall have the right to participate in such defense at its own cost and expense.

(d) If the Seller decides to control the defense of a Third Party Claim pursuant to Article 9.3 (c), (i) such decision will conclusively establish for purposes of this Agreement that the claims made in that Third Party Claim are within the scope of and subject to indemnification unless (A) there is no finding or admission of any violation of Legal Requirement or any violation of the rights of any person or entity, or (B) the sole relief provided is monetary damages that are paid in full by the Seller; and (C) the Purchaser shall have no liability with respect to any compromise or settlement of such Third-Party Claims. No compromise or settlement of such Third Party Claims may be effected by the Sellers without the Purchaser's prior written consent, if such compromise or settlement could adversely affect the ongoing operations of the Business.

(e) If notice is given to the Seller of the assertion of any Third-Party Claim and the Seller does not, within thirty (30) days after the Purchaser's notice is given, give notice to the Purchaser of its

decision (if any) to control the defense of such Third-Party Claim according to Article 9.3 (c), the Seller keep its right to participate in the defense according to Article 9.3 (b) but will be bound by any determination made in such Third-Party Claim or any compromise or settlement effected by the Purchaser.

(f) If Seller decides to control the defence, Purchaser shall grant Seller and its representatives access to all relevant books and records and the premises and employees of the Purchaser, to the extent reasonably deemed necessary or appropriate by Seller in connection with the defense and upon reasonable notice to the Purchaser. In the case of any Third Party Claims relating to any environmental matters, this shall include Seller's right to investigate the premises (including the taking of soil samples or other similar samples). Irrespective of whether Seller has decided to control the defence according to Article 9.3 (c) or merely participate in the defense according to Article 9.3 (b) or has made no such decision yet, Purchaser shall regularly inform Seller about the status of the matter and promptly notify Seller of all material correspondence or other actions or developments in connection with the Third Party Claim.

(g) All costs and expenses incurred by Seller in defending the Third Party Claim shall be borne by Seller.

(h) With respect to Taxes, the following shall apply: if, after Closing, any Tax Authority informs Purchaser of a proposed audit, assessment, dispute or other circumstance relating to any Tax with respect to which Seller may incur any liability under this Agreement, Purchaser shall notify in writing Seller of such matter. Purchaser's notice shall be given within ten (10) days after Purchaser has received the relevant information from the Tax Authority, or at any earlier date if required to enable Seller to participate in any Tax audit or to review the relevant Tax assessment within the applicable period available for an appeal or other legal remedy. If Purchaser has reason to believe that a payment is to be made by Seller pursuant to any provision hereof, such notice shall state the amount of any Tax that has to be paid by Purchaser and must be accompanied by evidence reasonably necessary to determine the fact, amount and payment by Purchaser of such Tax. Purchaser agrees (i) to give Seller the opportunity to participate in any audits, disputes, administrative, judicial or other proceedings related to any Tax for any Tax period prior to the Effective Date, (ii) to comply with any instructions given by Seller in relation to the conducting of such proceedings, and (iii) to challenge and litigate any Tax assessment or other decision of any Tax Authority related to such Tax. In all other respects, the preceding paragraphs of this Article 9.3 shall apply to the defence against any Tax assessment or Tax related proceedings.

(i) The failure by Purchaser to comply with any of the obligations under this Article 9.3 shall release Seller from its indemnification obligation hereunder, unless such failure by Purchaser did not have any impact on the Losses claimed by Purchaser.

9.4 **No Other Remedies**.

The rights and remedies set forth in this Article 9 and those that may be set forth elsewhere in this Agreement shall be in lieu of any other right or remedy, including termination of this Agreement, to the benefit of Purchaser arising under any applicable law in connection with this Agreement or as a result of (i) any breach of the representations and warranties, (ii) any breach of a covenant or other obligation of Seller contained in this Agreement or (iii) for any other reason.

ARTICLE 10

Covenants by Seller and Purchaser

10.1 **Non-Competition**. For a period of five (5) years from Closing, Seller will not, and Seller will cause its Affiliates not to, anywhere in Europe (including the United Kingdom) or the United States:

10.1.1 participate, acquire, establish, incorporate or in any way own interests in excess of 5% of any privately held entity or 10 % for any publicly listed company (either in the position of entrepreneur, shareholder, quotaholder, associated, investor, partner and or other similar position) in any entity or activity or business, whether industrial or commercial, which is or may be in competition with the Business;

10.1.2 solicit the employment or services of individuals who have been managers, employees of the Business before Closing with the exception of Dr. Bertrand Falque and with the exception of managers and employees who have received notice of, or have been offered by the Purchaser, termination of their employment or who have applied for employment on their own initiative (without any involvement by Seller) or in response to a general advertisement; or

10.1.3 solicit the business of any person or entity that is a customer of the Business (if such solicitation is in competition with the Business) or cause any customer or supplier of the Business to cease doing business with the Business.

10.1.4 Seller agrees that in the event that Seller or any of its Affiliates breaches any provision under Section 10.1, Purchaser shall be entitled to liquidated damages of Euro 1 million to compensate Purchaser for such harm (unless Seller can show that the actual harm is lower than EURO 1 million), together with additional monetary damages and any other remedy available under any applicable Legal Requirement. Purchaser agrees that it shall not be entitled to such liquidated damages until such time that Purchaser has notified Seller in writing of any violation of Section 10.1 and Seller fails to cure such violation within 30 days after the date of such notice.

10.2 **Taxes**.

10.2.1 Responsibility for Taxes. The Parties understand and agree that the Seller shall be liable for all Taxes arising out of the ownership and operation of the Assets prior to the Closing. The Parties further understand and agree that the Purchaser shall be liable for all Taxes arising out of the ownership and operation of the Assets after the Closing. The indemnification obligation of Seller with respect to the Subsidiaries as set forth in this Section 10.2.1 shall be reduced by any amount accrued with respect to the Subsidiaries in the Effective Date Balance Sheet. This does not apply to each other Party’s corporate income taxes and VAT.

10.2.2 Tax Clearance. Seller undertakes to request a certificate from the competent tax authority on pending tax proceedings and unpaid tax debts (if any) relating to the Business in accordance with art. 14 of Law Decree n° 472/1997. Seller undertakes to immediately provide Purchaser with a copy of its request and of any answers it will receive from the tax authority.

10.2.3 Tax refunds. With regard to the taxes split according to Section 10.2.1 Purchaser shall pay to Seller the amount of any Tax refund relating to any Tax Period Before Effective Date (except to the extent such refund claim is shown as an asset in the Effective Date Balance Sheet), and Seller shall pay to Purchaser the amount of any Tax refund relating to the Tax period after the Effective Date. Each Party shall notify the other in writing of the receipt of any Tax refund. Any amount payable pursuant to this paragraph shall be due and payable within five (5) Business Days after the Tax refund has been received by the relevant Party. If any Party fails to comply with such obligations, interest at a rate of 6% per annum shall become due and payable on the relevant amounts, without prejudice to any other claims of Seller arising from such breach.

10.3 **Use of the Name and Trademark “RÜTGERS”.** Purchaser shall have the right to use to for a period of six (6) months after the Effective Date the trademark “RÜTGERS” in connection with the ongoing operation of the Business. As of the day six month after the Effective Date, Purchaser shall be obliged to refrain from using the trademark “RÜTGERS” within the Business, except for the use of the trademark “RÜTGERS” on technical drawings which have been prepared for specific projects, in which case such use of the trademark “RÜTGERS” may be continued until the end of the project. Purchaser hereby undertakes to hold Seller harmless and indemnified against any liability arising from Purchaser’s misuse, abuse or unlawful use of the name “RÜTGERS” and of the trademark “RÜTGERS” and/or any other violation of this Article 10.3.

10.4 After the Closing Date, Purchaser will afford to Seller and RÜTGERS AG and their representatives reasonable access at normal business hours, upon reasonable advance notice, to accounting, financial and other records (and allow them to make copies thereof at their cost), as well as to other information, management, employees and auditors of the Business or the Subsidiaries to the extent necessary for the RÜTGERS Group (or the group of any direct or indirect shareholder of RÜTGERS AG) in connection with the Effective Date Consolidated Balance Sheet or any audit, investigation, dispute or litigation or any other reasonable business purpose. Unless otherwise instructed by Seller, Purchaser shall keep for no extra consideration, and procure that the Subsidiaries will keep for no extra consideration, all books and records relating to any period prior to the Closing Date in accordance with and during the periods required under applicable Legal Requirements. Purchaser shall give Seller reasonable notice prior to transferring, discarding or destroying any books or records of the Sold Business or the Subsidiaries and, if Seller so requests, deliver at Seller’s cost such books or records to Seller. Seller shall afford Purchaser and its representatives reasonable access at normal business hours, upon reasonable advance notice, any records retained by Seller or its Affiliates relating to the Business or the Subsidiaries. Unless otherwise instructed by Purchaser, Seller shall keep for no extra consideration, all books and records relating to the Business and the Subsidiaries in accordance with and during any period required under applicable Legal Requirements. Seller shall give Purchaser reasonable notice prior to transferring, discarding or destroying any books or records of the Business or the Subsidiaries retained by Seller and if Purchaser so requests, delivery at Purchaser’s cost, such books and records.

ARTICLE 11

Miscellaneous

11.1 **Entire Agreement**. This Agreement, the Schedules and enclosures annexed hereto, and the documents executed and delivered pursuant hereto, constitute the entire agreement between the Parties with respect to the subject matter hereof and supersede all other prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof.

11.2 **Severability.** Should any provision, or provisions, of this Agreement for any reason be, or become, invalid or not capable of performance, in whole or in part, then the validity of the remaining provisions of this Agreement shall not be affected thereby. The same applies if this Agreement should fail to provide for any relevant matter. In lieu of the invalid or inoperable provision, or in order to provide for an omitted provision, this Agreement shall be applied in a reasonable manner, which, so far as legally permissible, comes as close as possible to the application of what the Parties intended or would have intended, according to the spirit and purpose of this Agreement, had they considered the matter.

11.3 **Assignment**. This Agreement may not be assigned by operation of law or otherwise, except for the right of the Seller to assign this Agreement to RÜTGERS AG or any Affiliate or controlling companies.

11.4 **Amendments**. No amendments to this Agreement shall be valid and binding unless agreed in writing by the Parties or approved in writing by the Party against which such amendment should be enforced.

11.5 **Notices and Other Communications**. All notifications, notices, demands or requests provided for or permitted to be given pursuant to this Agreement must be in writing. All notices, demands and requests shall be deemed to have been properly served if given by personal delivery, or if transmitted by facsimile, or if delivered to Federal Express or other reputable overnight carrier for next business day delivery, charges billed to or prepaid by shipper, or if sent by air mail, proper postage prepaid, addressed as follows:

If to Seller:

RÜTGERS AG
Rellinghauser Strasse 3
D - 45128 Essen
Germany
Attention of: Management Board
Facsimile No.: 0049 (201) 177-2103

If to Purchaser:

Westinghouse Air Brake Technologies Corporation
1001 Air Brake Avenue
Wilmerding, PA 15148
Attention of: Alvaro Garcia-Tunon/Legal Department
Facsimile No.:001 (412) 825-1333

with a copy to:

Reed Smith LLP
435 6th Avenue
Pittsburgh, PA 15219
Attn: David L. DeNinno
Facsimile No.: 001 (412) 288-3063

Each notice, demand or request shall be effective upon personal delivery, or upon confirmation of receipt of the applicable facsimile or 1 (one) business day after delivery to a reputable overnight carrier in accordance with the foregoing, or upon arrival at the recipient's address if sent by air mail in accordance with the foregoing. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall not adversely impact the effectiveness of any such notice, demand or request. Service by personal delivery upon Purchaser shall be valid only if delivered personally to an officer of Purchaser.

Any addressee may change its address for notices hereunder by giving written notice in accordance with this Article.

11.6 **Counterparts**. This Agreement may be executed in any number of counterparts, and each counterpart shall constitute an original instrument, but all such separate counterparts shall constitute one and the same agreement.

11.7 **Schedules and Enclosures**. The schedules and enclosures referred to herein, and attached to this Agreement, are incorporated herein by such reference as if fully set forth in the text hereof.

11.8 **Interpretation**. The masculine, feminine or neuter pronouns used herein shall be interpreted without regard to gender, and the use of the singular or plural shall be deemed to include the other whenever the context so

requires. The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of this Agreement. Unless otherwise expressly stated herein, all references herein to articles and paragraphs are to articles and paragraphs in this Agreement and all references herein to Schedules and Exhibits are to Schedules and Exhibits to this Agreement. Where, in this Agreement, a Party "shall cause" some other person or entity to give or do something, or to refrain from doing something, such Party shall be deemed to have made a promise within the meaning of Article 1381 of the Italian Civil Code.

11.9 **Costs**. Unless otherwise provided in this Agreement, each party hereof shall bear the costs and expenses of its own legal counsel, advisors and consultants retained in connection with the negotiations of this Agreement and the consummation of the transactions contemplated hereby. Stamp duty, registration, transfer, sales, use, cadastral and mortgage tax, or other taxes applicable to, imposed upon or arising as a result of the purchase and sale of the Business pursuant to this Agreement, as well as any notary fees, shall be borne by Purchaser.

11.10 **Governing Law; Consent to Jurisdiction and Arbitration**.

(a) This Agreement shall be governed and controlled by the laws of Italy, including, for the avoidance of doubt, Art. 1229 of the Italian Civil Code.

(b) Except for disputes arising under Section 3.4 relating to accounting matters, all disputes arising under, relating to, or in connection with this Agreement shall be finally settled under the Rules of the International Chamber of Commerce by three arbitrators appointed in accordance with said Rules, who shall be knowledgeable in Italian Law. The proceedings shall be held in the English language. The seat of the arbitration shall be London, United Kingdom. The arbitrators shall decide the amount of the prevailing party's attorney's fees and disbursements, and such costs of the prevailing party shall be borne by the defeated party in proportion to the allocation of the final award by the arbitrators.

(SIGNATURES ON THE FOLLOWING PAGE)

SELLER:

RÜTGERS RAIL S.p.A.

By: /s/ Dr. Thomas Altenbach

Dr. Thomas Altenbach
Member of the Board

By: /s/ Dr. Bertrand Falque

Dr. Bertrand Falque
President of the Board

PURCHASER:

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

By: /s/ Anthony J. Carpani

Anthony J. Carpani
Vice President, Group Executive,
Friction

Exhibit 10.42

Amendment Agreement

entered into this 28th day of January, 2005

BY AND AMONG

- RÜTGERS RAIL S.p.A., a company duly organized and existing under the laws of Italy, having its registered office in 83100 Avellino, at Via Pianodardine, Fiscal Code 01905290167, hereinafter referred to as "**Rütgers Rail SpA**", which is subject to the direction and co-ordination of Rütgers AG, a German company with its registered office in Essen (Germany) hereby represented by Dr. Bertrand Falque (Chairman of the Board of Directors) and Dr. Thomas Altenbach (member of the Board of Directors);

- on one side -

AND

- WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION, a company duly organized and existing under the laws of Delaware, having its principal office at 1001 Air Brake Avenue, Wilmerding, PA 15148, (hereinafter referred to as "**Wabtec**"), hereby represented by Mr. Anthony J. Carpani, duly authorized;

AND

- CoFren s.r.l., a company duly organized and existing under the laws of Italy, having its registered office in 83100 Avellino, at Via Pianodardine, Fiscal Code 02401890641, hereinafter referred to as **"CoFren"**, which is subject to the direction and co-ordination of the aforementioned Wabtec, hereby represented by Mr. Luigi Camellini as its sole director;

AND

- RFPC Holding Corporation, a company duly organized and existing under the laws of Delaware, having its registered office in Wilmington, Delaware, at 1011 Centre Road, Suite 310, registered under number 2223965, hereinafter referred to as **"RFPC"**, which is a wholly-owned subsidiary of Wabtec, hereby represented by Mr. Anthony J. Carpani as its President;

- on the other side -.

- Each of Rütgers Rail SpA, Wabtec, CoFren and RFPC may hereinafter severally be referred to as a "**Party**" and collectively as the "**Parties**" -

for the amendment of the

Sale and Purchase Agreement

entered into on the 12TH day of August, 2004

BY AND AMONG

Rütgers Rail SpA, on one side,

AND

Wabtec, on the other side.

RECITALS

A. Whereas, Rütgers Rail SpA and Wabtec have on 12 August 2004 entered into a Sale and Purchase Agreement, by which Rütgers Rail SpA sells and Wabtec buys substantially all of the assets and properties held by Rütgers Rail SpA primarily relating to, used or held for use in connection with the business of designing, developing, manufacturing, marketing and selling in Europe brake shoes, brake pads and related products and windows and interior fittings for rail cars carried on by Rütgers Rail SpA (hereinafter "**the Agreement signed on 12 August 2004**");

B. Whereas, any defined term used in this Amendment Agreement shall have the meaning assigned to it in the Agreement signed on 12 August 2004, unless a different or more specific definition is contained in this Amendment Agreement;

C. Whereas, the term "**Agreement**", where employed in the Agreement signed on 12 August 2004 and in this Amendment Agreement, shall as of today mean the Agreement signed on 12 August 2004, as amended by its parties since and as further amended by this Amendment Agreement;

D. Whereas, the Parties have already prior to this Amendment Agreement agreed that the date 31 January 2005 contained in Article 5.9 of the Agreement signed on 12 August 2004 shall be replaced by 31 March 2005 and that Attachment 5.3 to the Agreement signed on 12 August 2004 shall be replaced by Attachment D to this Amendment Agreement;

E. Whereas, the Parties acknowledge that all the conditions precedent to Closing as set forth in Article 5 of the Agreement signed on 12 August 2004 have been fulfilled except for the condition precedent contemplated by Article 5.5 (i) (approval by Trenitalia);

F. Whereas, the Parties now wish to close the sale and purchase agreed upon in the Agreement signed on 12 August 2004 nevertheless.

NOW, THEREFORE, the Parties hereby agree as follows:

ARTICLE 1

Designated Purchasers

1.1 Pursuant to Article 2.15 of the Agreement signed on 12 August 2004, Wabtec may designate, within the meaning of Article 1401 of the Italian Civil Code, by and no later than fifteen (15) Business Days prior to Closing, another entity controlled by it and being part of its group, to be the "**Designated Purchaser**" and upon such designation and relevant acceptance by the Designated Purchaser, all and any of Wabtec's rights and all and any of Wabtec's obligations deriving from the Agreement signed on 12 August 2004 shall be respectively automatically transferred and assigned to the Designated Purchaser, as if the Designated Purchaser originally executed the Agreement signed on 12 August 2004 in place of Wabtec, it being understood that Wabtec shall not be released of any of its obligations under the Agreement signed on 12 August 2004 and shall be jointly and severally liable with the Designated Purchaser with respect to Rütgers Rail SpA for any obligations arising from the Agreement.

1.2 Rütgers Rail SpA and Wabtec herewith jointly cancel the term of fifteen (15) Business Days prior to Closing as set forth in Article 2.15 of the Agreement signed on 12 August 2004. Wabtec hereby exercises the designation right according to Article 2.15 of the Agreement signed on 12 August 2004 as follows:

1.2.1 RFPC shall subenter as the Designated Purchaser with respect to the shares in the French company Abex Rail S. A. and the German company RÜTGERS Rail GmbH (Article 3.1 (n) of the Agreement signed on 12 August 2004), and it shall subenter into the obligation to pay such part of the purchase price for the Assets which correspond to those shareholdings, including the obligation to pay the Additional Purchase Price (Articles 3.3 and 3.9 of the Agreement signed on 12 August 2004).

1.2.2 CoFren shall subenter as the Designated Purchaser with respect to all other Assets sold and purchased under the Agreement signed on 12 August 2004, and all other rights and obligations of the Purchaser under the Agreement signed on 12 August 2004.

1.2.3 It remains understood that Wabtec shall not be released of any of its obligations under the Agreement signed on 12 August 2004 and shall

be jointly and severally liable with its Designated Purchasers RFPC and CoFren for any obligations arising from the Agreement signed on 12 August 2004 and this Amendment Agreement, nor be precluded from exercising the rights it has or may have in the future under the Agreement signed on 12 August 2004 (as joint holder of such rights together with the Designated Purchasers).

1.2.4 The purchase price to be paid by RFPC for the shareholding in the French company Abex Rail S. A. at Closing shall be € 1,600,000 (One Million and Six Hundred Thousand Euro). The purchase price to be paid by RFPC for the shareholding in the German company RÜTGERS Rail GmbH at Closing shall be € 83,000 (Eighty-Three Thousand Euro). The aggregate purchase price to be paid for the shareholdings in Abex Rail S. A. and RÜTGERS Rail GmbH shall also include the Additional Purchase Price which is payable twenty (20) Business Days after the Closing (Articles 3.3 and 3.9 of the Agreement signed on 12 August 2004). The purchase prices to be paid for the shareholdings in Abex Rail S. A. and RÜTGERS Rail GmbH shall not be subject to any other adjustments.

1.2.5 The Provisional Purchase Price to be paid by at Closing for all the other Assets sold and purchased under the Agreement signed on 12 August 2004 shall amount to € 26,317,000 (Twenty-Six Million Three-Hundred Seventeen Thousand Euro)and shall be subject to the Post-Closing Adjustment pursuant to Articles 3.7 and 3.8 of the Agreement signed on 12 August 2004.

1.3 Both RFPC and CoFren hereby accept to subenter into the Agreement as described above.

1.4 Rütgers Rail SpA hereby accepts the appointments of Designated Purchasers as set forth in this Article 1.

ARTICLE 2
Closing

2.1 The Closing shall take place as follows,

2.1.1 with regard to the Assets sold and purchased under the Agreement signed on 12 August 2004 (other than the shareholdings in Abex Rail S. A. and RÜTGERS Rail GmbH):

The Parties shall meet on 28 January 2005 at the offices of KPMG, Milan, via Vittor Pisani 25, or on such other day and at such other place as the Parties may agree upon, and shall have performed by that date, or shall perform whilst meeting on that date, all the actions contemplated by Article 7 of the Agreement signed on 12 August 2004. The Transfer Agreement (to be executed according to Article 7.2 (a) of the Agreement signed on 12 August 2004) shall be executed in the form attached to this Amendment Agreement as

Attachment 2.1.1 (except for any changes the Parties may agree upon and except for changes of a mere technical nature as may be recommended by the notary who will be asked to certify the Transfer Agreement) as soon as the Seller has received a confirmation from its bank, by fax or by telephone, that the bank has received from CoFren an amount of € 26,317,000 (Twenty-Six Million Three-Hundred Seventeen Thousand Euro), gross of any bank charges Seller's bank may deduct but net of any other bank charges.

2.1.2 with respect to the shareholding in the French company Abex Rail S. A.:

The Parties shall meet on 28 January 2005 at the offices of KPMG, Milan, via Vittor Pisani 25, or on such other day and at such other place as the Parties may agree upon, and shall have performed by that date, or shall perform whilst meeting on that date, the following actions: (i) the Seller and RFPC shall enter into a share purchase agreement substantially corresponding to Attachment 2.1.2 to this Amendment Agreement (hereinafter the "French Share Purchase Agreement"); (ii) the Seller shall present the resignation of Dr. Bertrand Falque from the board of Abex Rail S. A.; (iii) the Seller shall hold a shareholders' meeting in order to resolve about the change of the company name into "FrenTec S.A."; (iv) the Seller shall execute the "*ordre de mouvement*" and the "*déclaration de cession*" as required under French law, for the transfer of 2,494 shares in Abex Rail S. A. from the Seller to RFPC, and RFPC shall also sign the "*déclaration de cession*" and undertakes to timely present such declaration to the competent tax authority; (v) the Seller shall cause Mr. Fernando Perrotta, Mr. Bertrand Falque and BK Beteiligungsverwaltung GmbH to execute each an "*ordre de mouvement*" for 1 share in Abex Rail S. A. for the benefit of persons designated by RFPC, and to execute corresponding "*déclarations de cession*"; (vi) RFPC's bank shall carry out an irrevocable order for the wire transfer of an amount of € 1,600,000 (One Million and Six Hundred Thousand Euro) to the bank account of Seller indicated in Article 2.2 below, in such a way that payment will have been received by the Seller's bank no later than 31 January 2005, by 4 p.m.;

2.1.3 with respect to the shareholding in the German company Rütgers Rail GmbH:

(i) A representative of the Seller has held a notarized shareholders' meeting on 27 January 2005, resolving upon the name change into "CosRail GmbH"; (ii) Representatives of Seller and RFPC, declaring to act as "proxies without power of attorney" ("*vollmachtlose Vertreter*") have met before a notary on 27 January 2005, and have signed a share purchase and transfer agreement a copy of which is attached to this Amendment Agreement as Attachment 2.1.3 (hereinafter the "German Share Purchase and Transfer Agreement"); (iii) The director Dr. Bertrand Falque shall hand over to RFPC on 28 January 2005, a resignation letter from the board of Rütgers Rail GmbH effective as of the Effective Date; (iv) Seller and RFPC shall on 28 January 2005 execute declarations of ratification

(“*Genehmigung*”) of the German Share Purchase and Transfer Agreement; (v) RFPC’s bank shall carry out an irrevocable order for the wire transfer of an amount of € 83,000 (Eighty-Three Thousand Euro) to the bank account of Seller indicated in Article 2.2 below, in such a way that payment will have been received by the Seller’s bank no later than 31 January 2005 by 4 p.m.;

2.2 In addition to what is contemplated in Article 7 of the Agreement signed on 12 August 2004 and in addition to Article 2.1 above, Rütgers Rail SpA shall on 28 January 2005 deliver to CoFren a bank guarantee from a German bank (“*Bankbürgschaft*”) substantially in the form attached to this Amendment Agreement as Attachment 2.2, for the purpose of securing CoFren’s possible right to a reimbursement under Article 3.2 of this Amendment Agreement.

2.3 All Payments under Article 2.1 shall be made to the following bank account of Seller:

Account No.: 106 433 600

Bank: Deutsche Bank in Essen, Germany

Swift Code: DEUT DE DE

German bank routing code („BLZ“): 360 700 50

The same bank account shall be used for all other payments which will or may become due to the Seller under the Agreement.

2.4 Provided that Rütgers Rail SpA has by then received all the payments described in Article 2.1.1, 2.1.2 and 2.1.3, (i) the Effective Date shall be 31 January 2005, 23.59 hours and (ii) Rütgers Rail SpA shall hand over the possession and the management of the Business and the Assets sold under the Agreement signed on 12 August 2004 at the close of business on Monday, 31 January 2005. Such date and such condition shall also be included in the Transfer Agreement (Article 2.1.1), in the French Share Purchase Agreement (Article 2.1.2) and in the German Share Purchase and Transfer Agreement (Article 2.1.3). Each Party will employ its best efforts to prevent payments outside the ordinary course of business of the Business (or other unusual actions) to occur prior to the Effective Date.

2.5 Neither the Transfer Agreement (Article 2.1.1), nor the French Share Purchase Agreement (Article 2.1.2) nor the German Share Purchase and Transfer Agreement (Article 2.1.1 shall in any way supersede or novate this Agreement (including the Agreement signed on 12 August 2004 and this Amendment Agreement) and in the case of any discrepancy, this Agreement (including the Agreement signed on 12 August 2004 and this Amendment Agreement) shall prevail over the Transfer Agreement, the French Share Purchase Agreement and the German Share Purchase and Transfer Agreement. Any sale and purchase agreement which may come into existence between the parties of the German Share Purchase and Transfer Agreement shall be deemed to be in the form of, and identical to, this Agreement.

ARTICLE 3

Trenitalia

3.1 The condition precedent to Closing contemplated by Article 5.5 (i) of the Agreement signed on 12 August 2004 (approval by Trenitalia) is hereby waived and entirely replaced by the provisions contained in this Article 3.

3.2 If Trenitalia denies its approval as described in Article 3.3 below, Rütgers Rail SpA shall reimburse to CoFren an amount of € 3,500,000 (Three Million Five Hundred Thousand Euro) out of the purchase price it has received.

3.3 Trenitalia shall only be deemed to have denied its approval if all of the following events 3.3.1 through 3.3.4 have occurred:

3.3.1 Wabtec or CoFren have submitted to the competent offices of Trenitalia the complete documentation required by Trenitalia for a decision about its approval, according to Article 35 of the Italian Law no. 109 of 11 February 1994 (whether directly applicable or by analogy) and any other applicable provisions;

3.3.2 Trenitalia has notified Wabtec or CoFren in writing that it denies the approval, within 95 (ninety-five) calendar days from the Effective Date;

3.3.3 Wabtec or CoFren have notified Rütgers Rail SpA and Rütgers AG of Trenitalia's denial of approval within 95 (ninety-five) calendar days from the Effective Date, by sending to Rütgers Rail SpA and to Rütgers AG a copy of Trenitalia's denial of approval;

3.3.4 Wabtec or CoFren have made every best effort to prevent and to change Trenitalia's decision to deny the approval. It is understood that any effort to change Trenitalia's denial of the approval need not be continued after the expiry of the 95 (ninety-five) calendar day-term set forth in Articles 3.3.2 and 3.3.3.

3.4 The right of CoFren to receive the reimbursement set forth in Article 3.2 shall be secured by the bank guarantee according to Article 2.3 above.

3.5 Wabtec and CoFren shall provide Rütgers Rail SpA and Rütgers AG forthwith with copies of any pertinent communication received from Trenitalia within the 95 (ninety-five) calendar day-term set forth in Articles 3.3.2 and 3.3.3.

3.6 A denial of approval by Trenitalia shall have no other consequences between the Parties than the ones contemplated by this Article 3.

3.7 For the avoidance of doubt, (i) on the one hand, any denial of the approval by Trenitalia shall neither represent a breach of any representation or warranty of Seller nor a breach of any covenant by Seller contained in the Agreement

signed on 12 August 2004, and shall not give rise to any claim for Losses under Article 9 of the Agreement signed on 12 August 2004 and, (ii) on the other hand, the reimbursement which may become due under this Article 3 shall not be counted against the minimum or maximum amounts of Seller's aggregate liability for Losses set forth in Article 9.2.2 of the Agreement signed on 12 August 2004.

3.8 Any reimbursement made by Rütgers Rail SpA under this Article 3 shall be paid back to Rütgers Rail SpA if CoFren does obtain the acceptance (*omologazione*) as a Trenitalia supplier within one year after the notification from Trenitalia described in Article 3.3.2 above.

ARTICLE 4

Performance Bonds

The Purchaser has, as of today, not yet secured the replacement of the Seller's performance bonds by Closing, as required by Article 6.6 of the Agreement signed on 12 August 2004. In light of the length of time elapsed since, the Parties agree to reformulate the second to last sentence of Article 6.6 of the Agreement signed on 12 August 2004 as follows: "In the event that Purchaser is unable to obtain the consent of any third party to replace any performance bonds (the "remaining performance bonds"), Seller will continue to maintain the applicable remaining performance bond until the earlier of (1) three months from the Effective Date and (2) the date on which Purchaser is able to obtain a replacement letter of credit or performance bond.".

ARTICLE 5

Updated Schedules

The Parties mutually acknowledge that the following Schedules to the Agreement signed on 12 August 2004 have been updated according to Schedule 6.2 and Article 6.2 (d) or 6.2 (e) of the Agreement signed on 12 August 2004, with the updates being attached to this Amendment Agreement under the original Schedule numbers. Except where indicated otherwise, (i) all updates have been agreed to be made as of 31 December 2004 (as opposed to Closing) and (ii) the Seller represents and warrants that since 31 December 2004 the facts reflected in the Schedules have not changed beyond the ordinary course of business.

Number	Description
Schedule 3.1	Encumbrances other than customary title retention rights
Schedule 3.1(a)	List of machinery, equipment, furniture, furnishings, automobiles, trucks, vehicles, tools, dies, moulds and parts and similar property
Schedule 3.1(b)	List of Inventories

Schedule 3.1(e)	List of each contract to which the Seller is a party and which relates to the Business including Attachments A and B
Schedule 3.1(g)	List of all notes and accounts receivable of the Business
Schedule 3.1(m)	List of Real Property together with permits or licences thereto
Schedule 3.2(a)	List of excluded assets and certain not transferred liabilities
Schedule 3.5(a)	Liabilities arising out of the contracts assigned to the purchaser pursuant to Article 3.1
Schedule 3.5(b)	List of trade accounts payable owned by Seller and Subsidiaries to any Affiliate, which shall be transferred as of Reference Date
Schedule 3.5(c)	List of trade accounts payable owned by Seller and Subsidiaries to any Affiliate, which shall be transferred as of Effective Date
Schedule 6.6	List of performance Bonds
Schedule 8.2.4(a)	List of all assets which are necessary to operate the Business as currently operated but which are not sold under the agreement (since they do not fall under the definition of “Assets”, e.g. leased or licensed assets)
Schedule 8.2.4(b)	List of all leased or licensed assets and of all other assets of which Seller does not have the full ownership
Schedule 8.2.4(c)	List of contests, claims, defences or right of setoff and doubts regarding enforeceability
Schedule 8.2.5(b)	Any liabilities arising out of or related to the Business which are not reflected in the financial statements as of 31 December 2003 and are neither liabilities which have been incurred in the ordinary course of business since 31 December 2003
Schedule 8.2.6	Product Liability claims relating to products exceeding EURO 50,000, pending or threatened
Schedule 8.2.7(a)	Any actions or events since 31 December 2003 outside the ordinary course of business
Schedule 8.2.9(b)	Leased real property
Schedule 8.2.9(f)	List of missing certificates to run the business on the owned real property
Schedule 8.2.10(a)	List of outstanding injunction, judgment, order, decree or ruling issued by any court, arbitrators or other governmental authority (“Order”) in regard of business or assets, and identification of all points where Seller are not in compliance with Orders

Schedule 8.2.10(b)	List of threatened or pending proceedings
Schedule 8.2.11	List of all insurance policies which cover Rütgers Rail S.p.A. or any of its subsidiaries
Schedule 8.2.13	List of environmental matters
Schedule 8.2.14	List of all employees and consultants of the Business including all contractual arrangements as of 31 January 2005; List of all agreements with unions, workers' councils and other employee representatives
Schedule 8.2.14(c)	List of employees with individually negotiated bonus scheme
Schedule 8.2.14(d)	List of employees entitled to bonuses or severance payments in connection with the sale of the Business
Schedule 8.2.14(e)	List of pension commitments to current of former employees not required under Applicable Requirements
Schedule 8.2.15	List of discrimination matters
Schedule 8.2.16	List of industrial property rights (including software)
Schedule 8.2.18(b)	List of the names of the main customers of the Seller and the Subsidiaries

ARTICLE 6

Certain Post-Closing Services

6.1 In addition to any mutual post-closing assistance contemplated in the Agreement signed on 12 August 2004, the Parties agree that CoFren shall provide to Rütgers Rail SpA general administrative assistance for a period of 180 (one hundred and eighty) calendar days after Closing including, in particular, the services described in the following Articles 6.2 through 6.10.

6.2 Rütgers Rail SpA shall be allowed to maintain its legal domicile at the offices of CoFren in 83100 Avellino, at Via Pianodardine, for up to 180 (one hundred and eighty) calendar days after the Closing. During that period and thereafter, CoFren shall timely forward all mail for Rütgers Rail SpA still arriving at the Avellino or at the Montefredane address which does not pertain to the transferred Business. If any mail pertains to the transferred Business and also pertains to Rutgers Rail SpA, CoFren will forward copies

of such mail to a representative named by Rutgers Rail SpA. All mail shall be opened by CoFren and Rütgers Rail SpA expressly waives all its rights under D. Lgs 196/2003.

6.3 CoFren shall provide an update of the books of Rütgers Rail SpA as of 31 January 2005, as they result from the closing of the sale of the Business. Thereafter, CoFren shall continue to provide bookkeeping for Rütgers Rail SpA for a period of 180 (one hundred and eighty) calendar days after the Closing. Additionally, CoFren shall provide drafts of the 2004 statutory financial statements of Rütgers Rail SpA (including the notes and the report by the management).

6.4 CoFren shall provide Rütgers Rail SpA with a draft of the Effective Date Consolidated Balance Sheet which is to be provided by Rütgers Rail SpA pursuant to Article 3.7 (a) of the Agreement signed on 12 August 2004. CoFren shall provide such draft to Rutgers Rail SpA no later than 30 Business Days after the Effective Date.

6.5 CoFren shall provide drafts of all tax forms as requested by Rutgers Rail SpA in writing referring to the year 2004 (including VAT forms, the withholdings form Mod. 770, income tax forms etc) and all social contributions forms. CoFren shall provide drafts for Rütgers Rail SpA of all tax- and social contributions- relevant certifications as requested by Rutgers Rail SpA in writing with respect to the year 2004 (including the CUD certification and INPS certications). This Article 6.5 shall also apply to forms to be filed and certifications to be issued with regard to the year 2005, as a consequence of Rütgers Rail SpA’s running the Business during the year 2005 (up to the Effective Date). With respect to forms and certifications prepared in accordance with this Article 6.5 that are required to be delivered to employees of CoFren, upon Rütgers Rail SpA’s written request, CoFren shall make the delivery thereof.

6.6 CoFren shall prepare joint communications that have to be made by Rütgers Rail SpA as a consequence of the sale of the Business to customers and suppliers and deliver such notifications to the appropriate customers and suppliers.

6.7 CoFren shall have full access to and monitor any payments made to bank accounts of Rütgers Rail SpA. To the extent the underlying accounts receivable have been sold and assigned to CoFren under the Agreement, CoFren shall cause those payments to be forwarded to CoFren. CoFren shall also see that any invoices made to Rütgers Rail SpA shall be paid from the accounts of Rütgers Rail SpA, and if such invoices are for Assumed Liabilities or, to the extent such invoices are related to the transferred Business with respect to the period following the ClosingCoFren shall prepare and carry out the reimbursement of such expenses.

6.8 CoFren shall provide Rütgers Rail SpA with print-outs and copies of final work product and any supporting document which is necessary to verify the accuracy of such work product in connection with CoFren’s assistance provided under this Article 6. Rütgers Rail SpA shall provide CoFren with such documents which are necessary for the completeness of the bookkeeping which are currently not at the Avellino or Montefredane sites.

6.9 The parties acknowledge that the post-closing services contemplated by this Article 6 are in the exclusive interest of Rütgers Rail SpA, and that CoFren's undertaking to perform such post-closing services is motivated by business courtesy, the payments under Article 6.10 notwithstanding. Therefore, (i) Rütgers Rail SpA waives from this point on any and all claims it might have against CoFren or Wabtec for the reason of an unsufficient performance of the post-closing services; (ii) Rütgers Rail SpA shall hold CoFren, Wabtec and RFPC fully harmless from any assertion by any third party (including but not limited to private third parties, public authorities and the courts) that CoFren was unauthorized or unqualified to provide such services, or provided inadequate services, for the benefit of Rütgers Rail SpA, or that by doing so it has incurred obligations toward such third party. In the case of any such assertion by any third party, Article 9.3 of the Agreement signed on 12 August 2004 ("Handling of Third Party Claims") and Article 3.7 (ii) of this Amendment Agreement shall apply *mutatis mutandis*.

6.10 For the assistance provided by CoFren in accordance with this Article 6, Rütgers Rail SpA shall pay, in five equal monthly installments of € 10,000 (ten thousand Euro) beginning on March 15th., the aggregate sum of € 50,000 (fifty thousand Euro). CoFren shall notify Rütgers Rail SpA advance whenever it intends to obtain services or assistance from third parties to carry out its obligations under this Article 6 and prior to securing such assistance, CoFren shall receive Rütgers Rail SpA's written consent. CoFren shall provide Rütgers Rail SpA with all reasonable and necessary details of such services and/or assistance, including a copy of the invoice for the amounts paid. Rütgers Rail SpA shall promptly reimburse CoFren the amounts from time to time paid by CoFren to the third parties.

ARTICLE 7

Arbitration Agreement

7.1 The arbitration clause contained in Article 11.10 (b) of the Agreement signed on 12 August 2004 is and shall remain in full force and effect and shall apply also to all disputes arising under, relating to, or in connection with, and among the Parties to, (i) this Amendment Agreement, and (ii) the Transfer Agreement contemplated by Article 2.1.1 of this Amendment Agreement, and (iii) the French Share Purchase Agreement contemplated by Article 2.1.2 of this Amendment Agreement, and (iv) the German Share Purchase and Transfer Agreement contemplated by Article 2.1.3 of this Amendment Agreement.

7.2 For the purposes of this Article 7, including any arbitration commenced in reliance upon Article 11.10 (b) of the Agreement signed on 12 August 2004, Wabtec, CoFren and RFPC shall be deemed to be one Party.

7.3 All arbitration claims or counterclaims, and all statements, notifications and communications of whatever kind to be made as a part of or in the context of

arbitral proceedings (intended, pending or concluded), which are to be brought or made by CoFren and RFPC, shall exclusively be brought and made by Wabtec in their name and on their behalf. All notifications and communications of whatever kind which may in the context of arbitral proceedings (intended, pending or concluded) to be made to CoFren or RFPC, shall exclusively be made to Wabtec.

7.4 The law governing the arbitration agreement set out in this Article 7 shall be Italian law.

ARTICLE 8

Certain clarifications

8.1 With respect to Article 2.0 of the Agreement signed on 12 August 2004: “last 2 (two) audited annual financial statements” shall mean those as of 31 December 2002 and those as of 31 December 2003;

8.2 With respect to Articles 3.5 (b) and 3.5 (c) and Schedules 3.5 (b) and 3.5 (c) of the Agreement signed on 12 August 2004: Inter-company liabilities/credits toward any Affiliates of Sellers which have arisen from the ordinary course of business and are existing at the Effective Date shall be treated trade accounts payable, i.e. they shall be considered Assumed Liabilities.

8.3 With respect to Article 5.8 of the Agreement signed on 12 August 2004: The Closing agreed upon in this Amendment Agreement is not a Pre-Closing within the meaning of Article 5.8 but a real and final Closing;

8.4 With respect to Article 10.2.1 of the Agreement signed on 12 August 2004: The references in the third and the sixth lines shall not be to the Closing but to the Effective Date;

8.5 All provisions of the Agreement signed on 12 August 2004 which have not been explicitly changed by this Amendment Agreement or through a separate agreement, shall remain in full force. The provisions contained in Article 11 (“Miscellaneous”) of the Agreement signed on 12 August 2004 shall also apply to this Amendment Agreement.

28 January 2005

RÜTGERS RAIL S.p.A.

By: /s/ Dr. Thomas Altenbach

Dr. Thomas Altenbach
Member of the Board

By: /s/ Dr. Bertrand Falque

Dr. Bertrand Falque
Chairman of the Board

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

By: /s/ Anthony J. Carpani

Anthony J. Carpani
Vice President, Group Executive, Friction

COFREN S.R.L.:

By: /s/ Ing. Luigi Camellini

Ing. Luigi Camellini
Sole director

RFPC Holding Corporation:

By: /s/ Anthony J. Carpani

Anthony J. Carpani, President

Exhibit 21

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

SUBSIDIARIES AND AFFILIATES

Company	Jurisdiction of Incorporation	Ownership Interest
Allied Friction Products Australia Pty Ltd.	Victoria, Australia	100%
Cobra Europe S.A.S.	France	100%
Evand Pty Ltd.	West Australia, Australia	100%
F.I.P. Pty Ltd.	Victoria, Australia	100%
Intermodal Trailer Express, Inc.	Delaware	100%
Jinhu Control Systems Co. Ltd.	Jiangsu Province, China	60%
Milufab, Inc.	Quebec, Canada	100%
MotivePower Foreign Sales Corporation	Barbados	100%
MotivePower, Inc.	Delaware	100%
Pioneer Friction Limited	West Bengal, India	100%
Railroad Friction Products Corporation	Delaware	100%
RFPC Holding Corporation	Delaware	100%
Stone UK, Ltd.	United Kingdom	100%
Vapor Europe S.r.l.	Italy	100%
Vapor Stone UK Limited	United Kingdom	100%
Wabtec Australia Pty. Limited	Capital Territory, Australia	100%
Wabtec Corporation	New York	100%
Wabtec Canada, Inc.	Ontario, Canada	100%
Wabtec de Mexico S.A., de C.V.	Mexico	100%
Wabtec Distribution Company	Delaware	100%
Wabtec Holding Corp.	Delaware	100%
Wabtec Rail Limited	South Yorkshire, United Kingdom	100%
Wabtec Railway Electronics Corporation	Nova Scotia	100%
Wabtec Railway Products India Private Ltd.	West Bengal, India	100%
Wabtec Servicios Administrativos, S.A. de C.V.	Mexico	100%
Westinghouse International Corporation	Barbados	100%
Westinghouse Railway Holdings (Canada) Inc.	Ontario, Canada	100%
Young Touchstone Company	Wisconsin	100%

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-80417, 333-59441, 333-53753, 333-39159, 333-02979 and 333-115014) of our reports dated March 11, 2005, with respect to the consolidated financial statements and schedule of Westinghouse Air Brake Technologies Corporation, Westinghouse Air Brake Technologies Corporation management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Westinghouse Air Brake Technologies Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/ ERNST & YOUNG LLP
Pittsburgh, Pennsylvania
March 11, 2005

Exhibit 31.1

CERTIFICATION

I, William E. Kassling, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 11, 2005

/s/ WILLIAM E. KASSLING

Name: **William E. Kassling**
Title: **Chairman of the Board & Chief Executive Officer**

CERTIFICATION

I, Alvaro Garcia-Tunon, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 11, 2005

/s/ ALVARO GARCIA-TUNON

Name: **Alvaro Garcia-Tunon**
Title: **Chief Financial Officer**

Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, the undersigned officers of Wabtec Corporation (the "*Company*"), hereby certify, to the best of their knowledge, that the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (the "*Report*") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ WILLIAM E. KASSLING

William E. Kassling
Chairman of the Board & Chief Executive Officer

Date: March 11, 2005

By: /s/ ALVARO GARCIA-TUNON

Alvaro Garcia-Tunon
Chief Financial Officer

Date: March 11, 2005

Exhibit 99.1

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

FORM 11-K

(Mark One):

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

For the fiscal year ended December 31, 2004

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to ___________

Commission file number 1-13782

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

Westinghouse Air Brake Technologies Corporation Savings Plan

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

Westinghouse Air Brake Technologies Corporation
1001 Air Brake Avenue
Wilmerding, PA 15148

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

SIGNATURE

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

Westinghouse Air Brake Technologies Corporation Savings Plan

By /s/ ALVARO GARCIA-TUNON

Alvaro Garcia-Tunon,
Member of the Pension Committee

March 11, 2005