

FOSTER L B CO  
Form 10-Q  
August 08, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2008**

**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 0-10436**

**L. B. Foster Company**

(Exact name of Registrant as specified in its charter)

Pennsylvania

25-1324733

(State of Incorporation)

(I. R. S. Employer Identification No.)

415 Holiday Drive, Pittsburgh, Pennsylvania

15220

(Address of principal executive offices)

(Zip Code)

(412) 928-3417

(Registrant's telephone number, including area code)

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

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

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

(Do not check if a smaller reporting company)

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

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

Class	Outstanding at July 25, 2008
Common Stock, Par Value \$.01	10,622,205 Shares

L.B. FOSTER COMPANY AND SUBSIDIARIES  
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## PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

L. B. FOSTER COMPANY AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In Thousands)

	June 30, 2008 (Unaudited)	December 31, 2007
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 107,648	\$ 121,097
Accounts and notes receivable:		
Trade	73,402	52,856
Other	463	754
	73,865	53,610
Inventories	105,449	102,447
Current deferred tax assets	3,575	3,615
Other current assets	1,509	1,131
Property held for resale		2,497
Total Current Assets	292,046	284,397
Property, Plant & Equipment At Cost	96,468	93,589
Less Accumulated Depreciation	(53,594)	(49,453)
	42,874	44,136
Other Assets:		
Goodwill	350	350
Other intangibles net	44	50
Deferred tax assets	1,426	1,411
Other assets	398	428
Total Other Assets	2,218	2,239
<b>TOTAL ASSETS</b>	<b>\$ 337,138</b>	<b>\$ 330,772</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 5,909	\$ 6,191
Accounts payable trade	65,793	53,489
Accrued payroll and employee benefits	5,584	11,490
Current deferred tax liabilities	3,541	3,541

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Other accrued liabilities	7,819	8,841
Current liabilities of discontinued operations	200	200
<b>Total Current Liabilities</b>	<b>88,846</b>	<b>83,752</b>
Long-Term Debt, Term Loan	14,762	16,190
Other Long-Term Debt	10,241	11,866
Deferred Tax Liabilities	1,638	1,638
Other Long-Term Liabilities	5,283	3,500
<b>STOCKHOLDERS EQUITY:</b>		
Common stock	110	109
Paid-in capital	47,484	45,147
Retained earnings	183,277	169,314
Treasury stock	(13,831)	
Accumulated other comprehensive loss	(672)	(744)
<b>Total Stockholders Equity</b>	<b>216,368</b>	<b>213,826</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 337,138</b>	<b>\$ 330,772</b>

See Notes to Condensed Consolidated Financial Statements.

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**L. B. FOSTER COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In Thousands, Except Per Share Amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Net Sales	\$ 129,833	\$ 148,547	\$ 223,274	\$ 259,213
Cost of Goods Sold	107,948	127,309	185,768	223,785
Gross Profit	21,885	21,238	37,506	35,428
Selling and Administrative Expenses	9,959	9,790	19,325	18,191
Interest Expense	488	1,183	1,043	2,405
Gain on Sale of DM&E Investment			(2,022)	
Gain on Sale of Property			(1,486)	
Interest Income	(586)	(4)	(1,401)	(5)
Other (Income) Expense	(135)	(342)	16	(599)
	9,726	10,627	15,475	19,992
Income From Continuing Operations Before Income Taxes	12,159	10,611	22,031	15,436
Income Tax Expense	4,502	3,762	8,068	5,495
Income From Continuing Operations	7,657	6,849	13,963	9,941
Discontinued Operations:				
Loss From Discontinued Operations Before Income Taxes		(31)		(19)
Income Tax Benefit		(12)		(8)
Loss From Discontinued Operations		(19)		(11)
Net Income	\$ 7,657	\$ 6,830	\$ 13,963	\$ 9,930
Basic Earnings Per Share				
From continuing operations	\$ 0.70	\$ 0.65	\$ 1.28	\$ 0.94
From discontinued operations				
Basic Earnings Per Share	\$ 0.70	\$ 0.64	\$ 1.28	\$ 0.94

Diluted Earnings Per Share				
From continuing operations	\$ 0.69	\$ 0.63	\$ 1.26	\$ 0.91
From discontinued operations				
Diluted Earnings Per Share	\$ 0.69	\$ 0.63	\$ 1.26	\$ 0.91

See Notes to Condensed Consolidated Financial Statements.

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**L. B. FOSTER COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousands)

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income from continuing operations	\$ 13,963	\$ 9,941
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Deferred income taxes	4	(57)
Depreciation and amortization	4,408	4,261
Gain on sale of DM&E investment	(2,022)	
Gain on sale of property, plant and equipment	(1,476)	(6)
Deferred gain amortization on sale-leaseback	(72)	
Stock-based compensation	55	60
Unrealized gain on derivative mark-to-market	34	
Excess tax benefit from share-based compensation	(754)	(646)
Change in operating assets and liabilities:		
Accounts receivable	(20,255)	(8,735)
Inventories	(3,002)	(4,867)
Other current assets	(378)	(336)
Prepaid income tax		1,359
Other noncurrent assets	15	(466)
Accounts payable trade	12,304	2,457
Accrued payroll and employee benefits	(5,184)	2,596
Other current liabilities	(83)	976
Other liabilities	(446)	(1,943)
Net Cash (Used) Provided by Operating Activities	(2,889)	4,594
Net Cash Used by Discontinued Operations		(13)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of property, plant and equipment	6,500	15
Proceeds from sale of DM&E investment	2,022	
Capital expenditures on property, plant and equipment	(3,134)	(2,774)
Net Cash Provided (Used) by Investing Activities	5,388	(2,759)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of revolving credit agreement		(2,331)
Repayments of long-term debt, term loan	(1,666)	
Proceeds from other short-term borrowings		662
Proceeds from exercise of stock options	464	838
Tax benefit related to stock options exercised	754	646



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Acquisition of treasury stock	(13,831)	
Repayments of other long-term debt	(1,669)	(1,559)
Net Cash Used by Financing Activities	(15,948)	(1,744)
Net (Decrease) Increase in Cash and Cash Equivalents	(13,449)	78
Cash and Cash Equivalents at Beginning of Period	121,097	1,309
Cash and Cash Equivalents at End of Period	\$ 107,648	\$ 1,387

Supplemental Disclosure of Cash Flow Information:

Interest Paid	\$ 996	\$ 2,286
Income Taxes Paid	\$ 9,096	\$ 4,132

The Company financed \$0.1 million in certain capital expenditures through short-term borrowings and the execution of capital leases during the first six months of 2007. There were no such expenditures during the first six months of 2008.

See Notes to Condensed Consolidated Financial Statements.

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**L. B. FOSTER COMPANY AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all estimates and adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. However, actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year ended December 31, 2008. Amounts included in the balance sheet as of December 31, 2007 were derived from our audited balance sheet. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2007.

**2. NEW ACCOUNTING PRINCIPLES**

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of SFAS No. 115, (SFAS 159). SFAS 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting principles generally accepted in the United States. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. The Company already records derivative contracts at fair value in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133). The adoption of SFAS 159 on January 1, 2008 had no impact on the Company as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS 141R) which replaces SFAS No. 141. SFAS 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning after December 15, 2008. The Company will adopt the provisions of this standard beginning January 1, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133, (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. This standard is effective for fiscal years beginning after December 15, 2008. As SFAS 161 only requires enhanced disclosures, this standard will have no impact on the Company's financial position or results of operations when it is adopted on January 1, 2009.

**3. FAIR VALUE MEASUREMENTS**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, rather it applies under existing accounting pronouncements that require or permit fair value measurements. The Company adopted SFAS 157 on January 1, 2008. The adoption of this standard did not impact our financial position or result of operations, as the Company had previously determined the fair value of these instruments in a manner consistent with the requirements of SFAS 157.

SFAS 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. This standard discusses valuation techniques, such as the market approach (comparable market prices), the income approach

(present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). SFAS 157 enables readers of financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair

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values. The standard requires that each asset and liability carried at fair value be classified into one of the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Included within cash and cash equivalents are our investments in principally tax-free money market funds with municipal bond issuances as the underlying securities all of which maintain AAA credit ratings. At June 30, 2008, the fair value of these investments was approximately \$90,994,000. Also included within cash and cash equivalents are our investments in bank certificates of deposit. At June 30, 2008, the fair value of these investments was approximately \$7,537,000. The Company determined the fair values of these investments based on quoted market prices. As prescribed by the SFAS 157 levels listed above, the Company recognized the fair value of its investments as a Level 1 valuation.

At June 30, 2008, the fair value of our derivative liabilities was approximately \$60,000 (see note 16). The Company determined the fair values of its derivative financial instrument positions, consisting of foreign currency exchange contracts, based on other observable inputs. As prescribed by the SFAS 157 levels listed above, the Company recognized the fair value of our derivative liabilities as a Level 2 valuation.

#### 4. ACCOUNTS RECEIVABLE

Credit is extended based upon an evaluation of the customer's financial condition and, generally, collateral is not required. Credit terms are consistent with industry standards and practices. Trade accounts receivable at June 30, 2008 and December 31, 2007 have been reduced by an allowance for doubtful accounts of (\$1,065,000) and (\$1,504,000), respectively. Bad debt (recovery) expense was (\$138,000) and \$140,000 for the six-month periods ended June 30, 2008 and 2007, respectively.

#### 5. INVENTORIES

Inventories of the Company at June 30, 2008 and December 31, 2007 are summarized in the following table:

<i>(in thousands)</i>	June 30, 2008	December 31, 2007
Finished goods	\$100,576	\$ 92,962
Work-in-process	4,364	5,121
Raw materials	15,860	16,786
Total inventories at current costs	120,800	114,869
Less:		
LIFO reserve	(11,368)	(8,605)
Inventory valuation reserve	(3,983)	(3,817)
	 \$105,449	 \$102,447

The majority of the Company's inventory is generally valued at the lower of last-in, first-out (LIFO) cost or market. Other inventories of the Company are valued at average cost or market, whichever is lower. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end levels and costs.

#### 6. PROPERTY HELD FOR RESALE

In December 2007, the Company entered into a preliminary agreement to sell approximately 63 acres of real estate located in Houston, TX used primarily by the Company's Tubular Products segment and reclassified these assets as property held for resale under SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets.

The sales price of the real estate was approximately \$6,500,000. This transaction closed on March 3, 2008 and the Company recorded a gain of \$1,486,000.

**Table of Contents****7. SALE-LEASEBACK**

On March 3, 2008 pursuant to the sale of property noted in footnote 6, the Company entered into a sale-leaseback transaction, as amended on April 30, 2008, with the purchaser of the Houston, TX real estate for approximately 20 acres of the real estate and certain other assets for a ten year term at a monthly rental rate of \$1,000 per acre with annual 3% increases. The April 30, 2008 amendment added approximately 9 acres of real estate on a month to month term basis. The lease is a net lease with the Company being responsible for taxes, maintenance, insurance and utilities. The Company will use the leased property for its threaded product operations.

This lease is being accounted for as an operating lease with an interest rate of 5.25% for the transaction. The transaction qualifies as a sale-leaseback under applicable guidance, including SFAS No. 98, Accounting for Leases, and the Company recorded as a deferred gain the present value of the minimum lease payments of the operating lease, \$2,146,000. This deferred gain will be amortized over the life of the lease, 120 months.

**8. RETIREMENT PLANS**

The Company has four plans together covering all hourly and salaried employees, specifically two defined benefit plans (one active / one frozen) and two defined contribution plans. Employees are eligible to participate under these specific plans based on their employment classification. The Company's funding to the defined benefit and defined contribution plans is governed by the Employee Retirement Income Security Act of 1974 (ERISA), applicable plan policy and investment guidelines. The Company policy is to contribute at least the minimum funding required by ERISA.

**Defined Benefit Plans**

Net periodic pension costs for both the active plan and frozen plan for the three months and six months ended June 30, 2008 and 2007 are as follows:

<i>(in thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Service cost	\$ 5	\$ 6	\$ 10	\$ 12
Interest cost	63	55	126	110
Expected return on plan assets	(72)	(65)	(144)	(130)
Prior service cost	2	2	4	4
Transition asset		(2)		(4)
Recognized net actuarial loss	12	13	25	26
Net periodic benefit cost	\$ 10	\$ 9	\$ 21	\$ 18

The Company expects to contribute \$311,200 to the defined benefit plans in 2008. Contributions through June 30, 2008 were \$215,900.

**Defined Contribution Plans**

The Company has a defined contribution plan that covers all non-union hourly and all salaried employees. This plan permits both pretax and after-tax employee contributions. Participants can contribute, subject to statutory limitations, between 1% and 75% of eligible pre-tax pay and between 1% and 100% of eligible after-tax pay.

The Company matches 100% of the first 1% of deferred eligible compensation and up to 50% of the next 6% of deferred eligible compensation, for a total maximum potential match of 4%. The Company may also make discretionary contributions to the Plan.

The expense associated with this plan for the six months ended June 30 was \$1,018,000 in 2008 and \$1,350,000 in 2007.

The Company also has a defined contribution plan for union hourly employees with contributions made by both the participants and the Company based on various formulas. The expense associated with this active plan for the six months ended June 30, 2008 and 2007 was \$17,000 and \$11,000, respectively.



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In February 2006, the Company sold substantially all of the assets of its Geotechnical division for \$4,000,000 plus the net asset value of the fixed assets, inventory, work in progress and prepaid items, resulting in a gain of approximately \$3,005,000. The operations of the division qualified as a component of an entity under SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets and thus, were reclassified as discontinued for all periods presented. Future expenses related to this business are expected to be immaterial.

Net sales and income from discontinued operations were as follows:

(in thousands)	Three Months Ended		Six Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
Net sales	\$	\$	\$	\$
Loss from discontinued operations	\$	\$(31)	\$	\$(19)
Income tax benefit		(12)		(8)
Loss from discontinued operations, net of tax	\$	\$(19)	\$	\$(11)

**10. BORROWINGS**

On May 5, 2005, the Company entered into the Amended and Restated Revolving Credit and Security Agreement (Agreement) with a syndicate of three banks led by PNC Bank, N.A. The Agreement provided for a revolving credit facility of up to \$60,000,000 in borrowings to support the Company's working capital and other liquidity requirements. In September 2005, the Company's maximum credit line was increased to \$75,000,000 under a first amendment to the Agreement. The Company's maximum credit line was increased again to \$90,000,000 in July 2007 under a fourth amendment to the Agreement, which also extended the expiration of the Agreement to May 2011. The revolving credit facility is secured by substantially all of the trade receivables and inventory owned by the Company. Revolving credit facility availability under the Agreement is limited by the amount of eligible accounts receivable and inventory, applied against certain advance rates, and are limited to 85% of eligible receivables and 60% of eligible inventory. Additionally, the fourth amendment established a \$20,000,000 term loan that was immediately applied to pay down existing amounts outstanding on the revolving credit facility. The term loan is being amortized on a term of seven years with a balloon payment on the remaining outstanding principal due at the maturity of the Agreement, May 2011. If average availability should fall below \$10,000,000 over a 30-day period, the loans become immediately secured by a lien on the Company's equipment that is not encumbered by other liens.

Prior to February 2007, borrowings under the credit facility bore interest at either the base rate or the LIBOR rate plus or minus an applicable spread based on the fixed charge coverage ratio. The base rate was equal to the greater of (a) PNC Bank's base commercial lending rate or (b) the Federal Funds Rate plus .50%. The base rate spread ranged from negative 1.00% to a positive .50%, and the LIBOR spread ranged from 1.50% to 2.50%. In February 2007, the Company entered into a third amendment to the Agreement under which revolving credit facility borrowings placed in LIBOR contracts are priced at prevailing LIBOR rates, plus 1.25%. Borrowings placed in other tranches are priced at the prevailing prime rate, minus 1.00%. The term loan base rate spread is fixed at minus 0.75% and the LIBOR spread is fixed at plus 1.50%.

The third amendment also permits the Company to use various additional debt instruments to finance capital expenditures, outside of borrowings under the Agreement, limited to an additional \$10,000,000, and increases the Company's permitted annual capital expenditures to \$12,000,000. Under the amended Agreement, the Company maintains dominion over its cash at all times, as long as excess availability stays over \$5,000,000 and there is no uncured event of default.

The Agreement includes financial covenants requiring a minimum level for the fixed charge coverage ratio and a maximum level for the consolidated capital expenditures. The Agreement also includes a minimum net worth



covenant and restricts investments, indebtedness, and the sale of certain assets. As of June 30, 2008 the Company was in compliance with all the Agreement's covenants.

At June 30, 2008 there were no outstanding borrowings under the revolving credit facility. Also at June 30, 2008, the Company had \$17,381,000 outstanding under the term loan and approximately \$86,042,000 in unused borrowing commitment.

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The following table sets forth the computation of basic and diluted earnings per common share:

(in thousands, except earnings per share)	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator:				
Numerator for basic and diluted earnings per common share net income available to common stockholders:				
Income from continuing operations	\$ 7,657	\$ 6,849	\$ 13,963	\$ 9,941
Loss from discontinued operations		(19)		(11)
Net income	\$ 7,657	\$ 6,830	\$ 13,963	\$ 9,930
Denominator:				
Weighted average shares	10,900	10,593	10,939	10,574
Denominator for basic earnings per common share	10,900	10,593	10,939	10,574
Effect of dilutive securities:				
Employee stock options	137	333	151	338
Other stock compensation plans	3		7	
Dilutive potential common shares	140	333	158	338
Denominator for diluted earnings per common share adjusted weighted average shares and assumed conversions	11,040	10,926	11,097	10,912
Basic earnings (loss) per common share:				
Continuing operations	\$ 0.70	\$ 0.65	\$ 1.28	\$ 0.94
Discontinued operations				
Basic earnings per common share	\$ 0.70	\$ 0.64	\$ 1.28	\$ 0.94
Diluted earnings (loss) per common share:				
Continuing operations	\$ 0.69	\$ 0.63	\$ 1.26	\$ 0.91
Discontinued operations				
Diluted earnings per common share	\$ 0.69	\$ 0.63	\$ 1.26	\$ 0.91

**12. STOCK-BASED COMPENSATION****Stock Option Awards**

The Company recorded stock compensation expense of \$55,000 and \$60,000 for the six month periods ended June 30, 2008 and 2007, respectively. The related deferred tax benefits were \$22,000 and \$23,000, respectively.

At June 30, 2008, there was \$74,000 of compensation expense related to nonvested awards which is expected to be recognized over a weighted-average period of 0.7 years. At June 30, 2007, there was \$184,000 of compensation expense related to nonvested awards which was expected to be recognized over a weighted-average period of 1.7 years.

There were no stock options granted during the first six months of 2008 or 2007.

At June 30, 2008 and 2007, common stock options outstanding under the plans had option prices ranging from \$2.75 to \$14.77, with a weighted average exercise price of \$5.85 and \$5.23 per share, respectively.

The weighted average remaining contractual life of the stock options outstanding at June 30, 2008 and 2007 are 4.1 years and 4.2 years.

Options exercised during the six month periods ended June 30, 2008 and 2007 totaled 99,380 and 80,125 shares, respectively. The weighted average exercise price per share of the options exercised during the six month periods ended June 30, 2008 and 2007 were \$4.67 and \$4.98, respectively. The total intrinsic value of options exercised during the

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three month period ended June 30, 2007 was \$1,052,000. There were no options exercised during the three month period ended June 30, 2008. The total intrinsic value of options exercised during the six month periods ended June 30, 2008 and 2007 were \$3,898,000 and \$1,656,000, respectively.

A summary of the option activity as of June 30, 2008 is presented below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2008	349,900	\$5.52	4.3	
Granted				
Canceled				
Exercised	(99,380)	4.67		
Outstanding at June 30, 2008	250,520	\$5.85	4.1	\$6,851,722
Exercisable at June 30, 2008	227,070	\$5.40	3.8	\$6,312,546

Shares issued as a result of stock option exercises generally are authorized but previously unissued common stock.

**Restricted Stock Awards**

During the six month periods ended June 30, 2008 and 2007 there were 10,500 and 17,500, respectively, fully vested restricted stock awards granted to the outside directors of the Company. The weighted average fair value per share of these restricted stock awards were \$32.61 and \$25.10, respectively.

Compensation expense recorded by the Company related to restricted stock awards was approximately \$342,000 and \$439,000, respectively, for the six months ended June 30, 2008 and 2007.

A summary of the restricted stock awards activity as of June 30, 2008 is presented below.

	Restricted Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term	Aggregate Fair Value
Outstanding at January 1, 2008		\$		\$
Granted	10,500	32.61		342,405
Vested	(10,500)	32.61		(342,405)
Canceled				
Outstanding at June 30, 2008		\$		\$

**The 2005 - 2007 Three Year Incentive Plan**

The Company granted, pursuant to the 2006 Omnibus Plan, as amended, approximately 11,000 fully-vested shares during the first quarter of 2008 in lieu of a cash payment earned under the Three Year Incentive Plan. These shares are not voluntarily transferable until May 1, 2010. The weighted average fair value of these restricted stock awards was \$43.91 per share.



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**Performance Unit Awards**

Under the 2008 – 2010 Three Year Incentive Plan the Company granted, pursuant to the 2006 Omnibus Plan, as amended, approximately 23,000 performance units during the six months ended June 30, 2008. These awards can be earned based upon the Company's performance relative to performance measures as defined in the plan. These awards are subject to forfeiture, cannot be transferred until March 6, 2012 and will be converted into common stock of the Company based on conversion multiples as defined in the underlying plan. The weighted average fair value of these restricted stock awards was \$43.91 per share.

**Other Long-term Awards**

The Company granted approximately 12,000 nonvested shares during the six month period ended June 30, 2008. The weighted average fair value of these time-vested, forfeitable restricted stock awards was \$40.69 at June 30, 2008. These restricted stock awards vest after a four year holding period.

The Company recorded compensation expense of \$250,000 for the six month period ending June 30, 2008 relative to the awards granted pursuant to the Performance Unit Awards and the Other Long-term Awards. Shares issued as a result of restricted stock awards generally are authorized but previously unissued common stock.

**13. COMMITMENTS AND CONTINGENT LIABILITIES**

The Company is subject to laws and regulations relating to the protection of the environment, and the Company's efforts to comply with environmental regulations may have an adverse effect on its future earnings. In the opinion of management, compliance with the present environmental protection laws will not have a material adverse effect on the financial condition, results of operations, cash flows, competitive position, or capital expenditures of the Company.

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial condition or liquidity of the Company. The resolution, in any reporting period, of one or more of these matters could have a material effect on the Company's results of operations for that period.

In the second quarter of 2004, a gas company filed a complaint against the Company in Allegheny County, PA, alleging that in 1989 the Company had applied epoxy coating on 25,000 feet of pipe and that, as a result of inadequate surface preparation of the pipe, the coating had blistered and deteriorated. The Company does not believe that the gas company's alleged problems are the Company's responsibility. Although no assurances can be given, the Company believes that it has meritorious defenses to such claims and will vigorously defend against such a suit. The Company's insurance carrier has undertaken the defense of this claim.

In November 2005, the City of Clearfield, Utah, filed suit in the Second District Court, Davis County, Utah, against the Utah Department of Transportation, a general contractor, four design engineers and/or consultants, a bonding company and the Company. The City alleged that the design and engineering of an overpass in 2000 had been faulty and that the Company had provided the mechanical stabilized earth wall system for the project. The City alleged that the embankment to the overpass began, in 2001, to fail and slide away from the stabilized earth wall system, resulting in damage in excess of \$3,000,000. The Company believes that it has meritorious defenses to these claims, that the Company's products complied with all applicable specifications and that other factors accounted for any alleged failure. The Company has referred this matter to its insurance carrier, which has undertaken the defense of this claim. At June 30, 2008 the Company had outstanding letters of credit of approximately \$3,958,000.

**Table of Contents****14. BUSINESS SEGMENTS**

The Company is organized and evaluated by product group, which is the basis for identifying reportable segments. The Company is engaged in the manufacture, fabrication and distribution of rail, construction and tubular products.

The following table illustrates revenues and profits of the Company by segment:

(in thousands)	Three Months Ended, June 30, 2008		Six Months Ended, June 30, 2008	
	Net Sales	Segment Profit	Net Sales	Segment Profit
Rail products	\$ 60,843	\$ 5,322	\$107,034	\$ 7,878
Construction products	60,039	7,603	100,025	10,511
Tubular products	8,951	1,825	16,215	2,846
Total	\$129,833	\$14,750	\$223,274	\$21,235

(in thousands)	Three Months Ended, June 30, 2007		Six Months Ended, June 30, 2007	
	Net Sales	Segment Profit	Net Sales	Segment Profit
Rail products	\$ 79,180	\$ 4,418	\$142,380	\$ 6,431
Construction products	58,946	5,369	100,311	7,860
Tubular products	10,421	2,366	16,522	3,360
Total	\$148,547	\$12,153	\$259,213	\$17,651

Segment profits, as shown above, include internal cost of capital charges for assets used in the segment at a rate of, generally, 1% per month. There has been no change in the measurement of segment profit from December 31, 2007. The following table provides a reconciliation of reportable segment net profit to the Company's consolidated total:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Income for reportable segments	\$14,750	\$12,153	\$ 21,235	\$ 17,651
Cost of capital for reportable segments	4,956	5,045	9,430	9,917
Interest expense	(488)	(1,183)	(1,043)	(2,405)
Gain on sale of DM&E investment			2,022	
Gain on sale of property			1,486	
Interest income	586	4	1,401	5
Other income (expense)	135	342	(16)	599
Corporate expense and other unallocated charges	(7,780)	(5,750)	(12,484)	(10,331)
	\$12,159	\$10,611	\$ 22,031	\$ 15,436

Income from continuing operations before  
income taxes

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**Table of Contents****15. COMPREHENSIVE INCOME**

Comprehensive income represents net income plus certain stockholders' equity changes not reflected in the Condensed Consolidated Statements of Operations. The components of comprehensive income, net of tax, were as follows:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net income	\$7,657	\$6,830	\$13,963	\$9,930
Unrealized derivative (losses) gains on cash flow hedges	(4)	(143)	72	(182)
Comprehensive income	\$7,653	\$6,687	\$14,035	\$9,748

**16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

The Company does not purchase or hold any derivative financial instruments for trading purposes. The Company uses derivative financial instruments to manage interest rate exposure on variable-rate debt, primarily by using interest rate collars and variable interest rate swaps. The Company's primary source of variable-rate debt comes from its revolving credit agreement.

At contract inception, the Company designates its derivative instruments as hedges. The Company recognizes all derivative instruments on the balance sheet at fair value. Fluctuations in the fair values of derivative instruments designated as cash flow hedges are recorded in accumulated other comprehensive income and reclassified into earnings as the underlying hedged items affect earnings. To the extent that a change in interest rate derivative does not perfectly offset the change in value of the interest rate being hedged, the ineffective portion is recognized in earnings immediately.

The Company is not subject to significant exposures to changes in foreign currency exchange rates. The Company will, however, manage its exposure to changes in foreign currency exchange rates on firm sale and purchase commitments by entering into foreign currency forward contracts. The Company's risk management objective is to reduce its exposure to the effects of changes in exchange rates on these transactions over the duration of the transactions.

During 2006, the Company entered into commitments to sell Canadian funds based on the anticipated receipt of Canadian funds from the sale of certain rail commencing in the second quarter of 2007 through the third quarter of 2008. The fair value of these instruments was a liability of \$60,000 and \$172,000 as of June 30, 2008 and December 31, 2007, respectively. The liability is recorded in Other Accrued Liabilities. During the first six months of 2008, one of these Canadian dollar denominated commitments matured for a realized loss of approximately \$87,000.

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

L. B. Foster Company is a leading manufacturer, fabricator and distributor of products for rail, construction, utility and energy markets. The Company is comprised of three business segments: Rail products, Construction products and Tubular products.

**Recent Developments**

On May 12, 2008, the Board of Directors authorized the repurchase of up to \$25.0 million of the Company's common shares until June 30, 2010 at which time this authorization will expire. Subsequent to this announcement, the Company repurchased 413,362 shares for approximately \$13.8 million at an average price of \$33.46.

**Critical Accounting Policies**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or method of its application, is

generally accepted, management selects the principle or method that is appropriate in the Company's specific circumstances. Application of these accounting principles requires management to make estimates about the future resolution of existing uncertainties. As a result, actual results could differ from these estimates. In preparing these financial statements, management has made its best estimates and judgments of the amounts and disclosures included in

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the financial statements giving due regard to materiality. There have been no material changes in the Company's policies or estimates since December 31, 2007. For more information regarding the Company's critical accounting policies, please see the Management's Discussion & Analysis of Financial Condition and Results of Operations in Form 10-K for the year ended December 31, 2007.

**New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, rather it applies under existing accounting pronouncements that require or permit fair value measurements. The Company adopted SFAS 157 on January 1, 2008. The adoption of this standard did not impact our financial position or result of operations, as the Company had previously determined the fair value of these instruments in a manner consistent with the requirements of SFAS 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of SFAS No. 115, (SFAS 159). SFAS 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting principles generally accepted in the United States. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. The Company already records derivative contracts at fair value in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133). The adoption of SFAS 159 on January 1, 2008 had no impact on the Company as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS 141R) which replaces SFAS No. 141. SFAS 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning after December 15, 2008. The Company will adopt the provisions of this standard beginning January 1, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS No. 133, (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. This standard is effective for fiscal years beginning after December 15, 2008. As SFAS 161 only requires enhanced disclosures, this standard will have no impact on the Company's financial position or results of operations when it is adopted on January 1, 2009.

**Table of Contents****Results of Operations**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Net Sales:				
Rail Products	\$ 60,843	\$ 79,180	\$ 107,034	\$ 142,380
Construction Products	60,039	58,946	100,025	100,311
Tubular Products	8,951	10,421	16,215	16,522
Total Net Sales	\$ 129,833	\$ 148,547	\$ 223,274	\$ 259,213
Gross Profit:				
Rail Products	\$ 9,865	\$ 9,261	\$ 16,962	\$ 16,041
Construction Products	12,491	10,025	20,148	16,794
Tubular Products	2,384	2,958	3,911	4,470
Other	(2,855)	(1,006)	(3,515)	(1,877)
Total Gross Profit	21,885	21,238	37,506	35,428
Expenses:				
Selling and administrative expenses	9,959	9,790	19,325	18,191
Interest expense	488	1,183	1,043	2,405
Gain on sale of DM&E investment			(2,022)	
Gain on sale of property			(1,486)	
Interest income	(586)	(4)	(1,401)	(5)
Other (income) expense	(135)	(342)	16	(599)
Total Expenses	9,726	10,627	15,475	19,992
Income from Continuing Operations Before				
Income Taxes	12,159	10,611	22,031	15,436
Income Tax Expense	4,502	3,762	8,068	5,495
Income from Continuing Operations	7,657	6,849	13,963	9,941
Discontinued Operations:				
Loss From Discontinued Operations		(31)		(19)
Income Tax Benefit		(12)		(8)
Loss From Discontinued Operations, Net of				
Tax		(19)		(11)
Net Income	\$ 7,657	\$ 6,830	\$ 13,963	\$ 9,930

Gross Profit %:				
Rail Products	16.2%	11.7%	15.8%	11.3%
Construction Products	20.8%	17.0%	20.1%	16.7%
Tubular Products	26.6%	28.4%	24.1%	27.1%
Total Gross Profit	16.9%	14.3%	16.8%	13.7%
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**Table of Contents****Second Quarter 2008 Results of Operations**

Net income for the second quarter of 2008 was \$7.7 million (\$0.69 per diluted share) on net sales of \$129.8 million. Net income compares favorably to the second quarter of 2007 which was \$6.8 million (\$0.63 per diluted share), while net sales were \$148.5 million.

Sales decreased by \$18.7 million, or 12.6%, compared to the prior year quarter. Rail products sales decreased 23.2% to \$60.8 million due primarily to decreased rail distribution sales as well as track panels and concrete ties. The decline in rail distribution in the second quarter of 2008 was caused by softer demand for new rail and our decision to limit our use of foreign rail suppliers. Our track panel plant in Pueblo, CO ended its operations at the beginning of 2008 due to the loss of its contract with its main customer. Reductions in the volume of orders for concrete ties had a negative impact at our Grand Island, NE, and our Spokane, WA facilities. Our Grand Island, NE facility continues to be impacted negatively by the UPRR purchase reductions while our Spokane, WA facility sales volumes have declined due to less new track construction in 2008.

Construction products sales remained stable at \$60.0 million. Increases in our Concrete Buildings and Fabricated Products divisions were offset by a slight decline in piling sales. The piling decrease was due to a decline in our H-beam and pipe piling sales as compared to the prior year. Increased volumes of flat sheet piling for open cell systems mitigated those reductions. Our Tubular products sales decreased 14.1% to \$9.0 million in comparison to the second quarter of 2007. Our coated pipe facility in Birmingham, AL operated a second shift in the prior year period to meet customer requirements while we operated only one shift in 2008.

Our gross profit margin increased 2.6 percentage points to 16.9% compared to last year's second quarter. Rail products profit margin improved 4.5 percentage points to 16.2%. Despite the reduction in sales levels, our Rail Products segment was able to expand margins through plant process improvements and increased billing margins. The high labor force turnover experienced in the prior year period at our Tucson, AZ concrete tie facility has stabilized with a resulting increase in productivity. Our Allegheny Rail Products (ARP) division also realized productivity gains with its increased sales volumes. Construction products gross profit margin increased to 20.8%, an increase of 3.8 percentage points from the prior year period due to improvement in all areas except for our Concrete Buildings division. Much of this improvement is attributable to the piling sales of engineered solutions as well as the significant price increases in structural steel that have occurred throughout 2008. Our Fabricated Products division showed improved volumes and selling margins while our Concrete Buildings division declined due to product mix and lower billing margins. The reduced absorption of plant expenses, due to not running a second shift at our Birmingham, AL facility, decreased our Tubular Products segment gross profit margin 1.8 percentage points to 26.6%. Lastly, LIFO charges increased \$1.7 million in the second quarter of 2008 to \$2.5 million negatively impacting our gross profit margin.

Selling and administrative expenses increased 1.7% from the same prior year period due to increases in employee related expenses including salaries and benefits. Interest expense decreased 58.7% from the prior year period due principally to reduced outstanding average borrowings. We generated interest income of \$0.6 million during the second quarter of 2008 from our investments in principally short-term, tax free money market funds. Income taxes from continuing operations in the second quarter were recorded at approximately 37.0% compared to 35.5% in the prior year period.

**First Six Months of 2008 Results of Operations**

Net income for the first six months of 2008 was \$14.0 million (\$1.26 per diluted share) on net sales of \$223.3 million. Net income compares favorably to the first six months of 2007 which was \$9.9 million (\$0.91 per diluted share), while net sales were \$259.2 million.

Net income for the first six months of 2008 included a pre-tax gain of \$2.0 million related to the receipt of escrow proceeds from a favorable working capital adjustment pursuant to the sale of our investment in the DM&E railroad. Also included in the first six months of 2008 was a pre-tax gain of \$1.5 million on the sale and lease-back of our threaded products facility located in Houston, TX. Excluding these gains, earnings per diluted share from continuing operations were \$1.06 and \$0.91 for the six month periods ended June 30, 2008 and 2007, respectively.

Sales decreased by \$35.9 million, or 13.9%, compared to the prior year period. Rail products sales decreased 24.8% to \$107.0 million due primarily to a decrease in rail distribution, with additional reductions in track panels, concrete ties

and transit products. Our decision to limit our use of foreign suppliers for our rail distribution products has caused a significant reduction in the current period sales levels. Our track panel plant in Pueblo, CO ended its operations at the beginning of 2008 due to the loss of its contract with its main customer. The aforementioned reductions in the volume of orders for concrete ties had a negative impact at our Grand Island, NE, and our Spokane, WA facilities. Lastly, our Transit Products division sales decreased due to a critical supplier's production delays in the first quarter of 2008. Partially offsetting these decreases is an increase at our ARP facility in Pueblo, CO, where we manufacture insulated rail joints and assemble rail lubricators, due to orders from Class 1 railroads.

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Construction products sales remained consistent at approximately \$100.0 million compared to the prior year period. Sales increases at our Concrete Buildings and Fabricated Products divisions have been offset by piling sales decreases. Our Tubular products sales decreased 2.0% to \$16.2 million in comparison to the first six months of 2007. Higher sales in 2007 were due to our coated pipe facility in Birmingham, AL operating two shifts while operating only one shift in the current period. Partially offsetting this decline was the ability of our Threaded Products division to successfully pass raw material cost increases onto its customers.

Our gross profit margin increased to 16.8%, or 3.1 percentage points, compared to the first six months of 2007. Rail products profit margin improved 4.5 percentage points to 15.8%. The reduction of inefficiencies at our Tucson, AZ concrete tie facility experienced in the first six months of 2007 due to labor force turnover, concrete mix design and operational issues has driven margin improvement. We achieved margin expansion at our ARP division due to plant process improvements and volume increases. Lastly, our Transit Products division experienced margin expansion through a favorable mix of product sales. These increases more than offset gross profit margin declines associated with corresponding sales volume reductions in track panels and reduced UPRR purchasing levels at our Grand Island, NE tie facility.

Construction products gross profit margin increased 3.4 percentage points to 20.1% from the prior year period due to improvement in our Piling division. Our Piling division leveraged lower cost, on-hand inventory while our Fabricated Products divisions margin was down slightly due to reduced billing margins. The reduced absorption of plant expenses due to not running a second shift at our Birmingham, AL facility drove the decrease in our Tubular Products segment gross profit margin of 3.0 percentage points to 24.1%.

Selling and administrative expenses increased 6.2% from the same prior year period due to increases in employee related expenses including salaries and benefits. Interest expense decreased 56.6% from the prior year period due principally to reduced borrowings. We recognized pre-tax gains of \$2.0 million and \$1.5 million from the receipt of DM&E escrow proceeds and the sale-leaseback of our Houston, TX threaded products facility, respectively. We generated interest income of \$1.4 million during the first six months of 2008 from our investments in principally short-term, tax free money market funds. Other income decreased \$0.6 million in the first six months of 2008 compared to the prior year period due to the elimination of dividend income from the DM&E. Income taxes from continuing operations for the first six months of 2008 were recorded at approximately 36.6% compared with the prior year period of 35.6%.

**Liquidity and Capital Resources**

The Company's capitalization is as follows:

<i>In millions</i>	June 30, 2008	December 31, 2007
<b>Debt:</b>		
Term Loan, due May 2011	\$ 17.4	\$ 19.0
Capital Leases and Interim Lease Financing	10.5	12.1
Other (primarily revenue bonds)	3.0	3.1
<b>Total Debt</b>	<b>30.9</b>	<b>34.2</b>
<b>Equity</b>	<b>216.4</b>	<b>213.8</b>
<b>Total Capitalization</b>	<b>\$247.3</b>	<b>\$ 248.0</b>



Working capital increased \$2.6 million to \$203.2 million at June 30, 2008 compared to \$200.6 million at December 31, 2007. An increase in trade accounts receivable of \$20.5 million was offset by a decrease in cash and cash equivalents of \$13.4 million and an increase in trade accounts payable of \$12.3 million. The increase in trade accounts receivable was driven by an increase in sales activity in June 2008 compared to December 2007 while activity levels and, to a lesser extent, material costs increases contributed to higher trade accounts payable. The decrease in cash and cash equivalents results from the Company's treasury stock acquisition plan that began during the second quarter of 2008 resulting in the purchase of approximately \$13.8 million in Company stock. The Company's liquidity needs arise from seasonal working capital requirements, capital expenditures, acquisitions and debt service obligations.

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The following table summarizes the year-to-date impact of these items:

<i>(In millions)</i>	June 30,	
	2008	2007
<b>Liquidity needs:</b>		
Working capital and other assets and liabilities	\$(17.0)	\$ (9.0)
Treasury stock transactions	(13.8)	
Capital expenditures	(3.1)	(2.8)
Scheduled repayments of long-term debt	(1.7)	
Scheduled repayments of other long-term debt	(1.7)	(1.6)
Cash interest paid	(1.0)	(2.3)
 Net liquidity requirements	 (38.3)	 (15.7)
<b>Liquidity sources:</b>		
Internally generated cash flows before interest paid	15.1	15.8
Proceeds from the sale of DM&E investment	2.0	
Proceeds from asset sales	6.5	
Credit facility activity		(2.3)
Equity transactions	1.2	1.5
Other		0.7
 Net liquidity sources	 24.8	 15.7
 <b>Net Change in Cash</b>	 \$(13.5)	 \$

Capital expenditures were \$3.1 million for the first six months of 2008 compared to \$2.8 million for the first half of 2007. Spending in 2008 and 2007 was primarily for maintenance capital, productivity improvement spending at our manufacturing facilities and information technology enhancements. We anticipate total capital spending in 2008 will be less than \$8.0 million and funded by cash flow from operations.

We routinely review our portfolio of businesses and contemplate potential acquisitions and dispositions from time to time. In addition to the \$25.0 million share repurchase program authorized in May 2008, we continue to assess additional options for the use of the proceeds received from the sale of our investment in the DM&E including, but not limited to, debt reduction, strategic acquisitions, organic reinvestment in the existing business and other general corporate purposes. We currently have the majority of these funds invested in short-term, tax free money market funds. Additionally, a portion of these funds were invested in short-term, certificates of deposit.

We have a revolving credit agreement which expires in May 2011 and provides for up to \$90.0 million in borrowings to support our working capital and other liquidity requirements. Borrowings under this agreement are secured by substantially all the trade receivables and inventory owned by us, and are limited to 85% of eligible receivables and 60% of eligible inventory. Additionally, the revolving credit agreement provided for a \$20.0 million term loan that was immediately applied to pay down existing drawings on the revolving credit facility. If average availability should fall below \$10.0 million over a 30-day period, the loans become immediately secured by a lien on the Company's equipment that is not encumbered by other liens.

Prior to February 2007, borrowings under the credit facility bore interest at rates based upon either the base rate or LIBOR plus or minus applicable margins. The base rate was equal to the higher of (a) PNC Bank's base commercial lending rate or (b) the Federal Funds Rate plus .50%. The base rate spread ranged from a minus 1.00% to a plus

0.50%, and the LIBOR spread ranged from 1.50% to 2.50%. Effective in February 2007, under the third amendment to the credit facility, for borrowings under the revolving credit facility the base rate spread is fixed at minus 1.00% and the LIBOR spread is fixed at plus 1.25%. The term loan base rate spread is fixed at minus 0.75% and the LIBOR spread is fixed at plus 1.50%. Under the credit agreement, we maintain dominion over our cash at all times, as long as excess availability stays over \$5.0 million and there is no uncured event of default.

There were no revolving credit facility borrowings at June 30, 2008 and December 31, 2007. At June 30, 2008, remaining available borrowings under this facility were approximately \$86.0 million. The outstanding amount of the term loan at June 30, 2008 was approximately \$17.4 million of which approximately \$14.8 million was classified as noncurrent. Outstanding letters of credit at June 30, 2008 were approximately \$4.0 million. The letters of credit have expiration dates ranging from September 2008 to May 2010. Management believes its internal and external sources of funds are adequate to meet anticipated needs for the foreseeable future.

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The credit agreement includes financial covenants requiring a minimum level for the fixed charge coverage ratio and a maximum level for consolidated capital expenditures. The credit agreement also includes a minimum net worth covenant and restricts certain investments, indebtedness, and the sale of certain assets. As of June 30, 2008 we were in compliance with all the credit agreement's covenants.

### **Off-Balance Sheet Arrangements**

The Company's off-balance sheet arrangements include operating leases, purchase obligations and standby letters of credit. A schedule of the Company's required payments under financial instruments and other commitments as of December 31, 2007 is included in the Liquidity and Capital Resources section of the Company's 2007 Annual Report filed on Form 10-K. There have been no significant changes to the Company's contractual obligations relative to the information presented in the Form 10-K. These arrangements provide the Company with increased flexibility relative to the utilization and investment of cash resources.

### **Dakota, Minnesota & Eastern Railroad**

During the fourth quarter of 2007, we sold our investment in the Dakota, Minnesota & Eastern Railroad (DM&E). At the time of the closing of this transaction, we fully reserved approximately \$2.1 million of the proceeds which were being held in escrow, until the completion of all post-closing transactions, to secure certain of the DM&E's obligations. This amount was fully reserved due to the uncertainty surrounding the amount of any future payout as well as the timing of such payout.

During the first quarter of 2008, upon completion of the buyer's working capital audit, the applicable proceeds were released from escrow. We recognized a pre-tax gain of approximately \$2.0 million related to the receipt of these proceeds.

For more information regarding the sale of our investment in the DM&E, please see our Management's Discussion & Analysis of Financial Condition and Results of Operations in Form 10-K for the year ended December 31, 2007.

### **Outlook**

Our CXT Rail division is dependent on the Union Pacific Railroad (UPRR) for a significant portion of its business. Our agreement with the UPRR provides for the UPRR's purchase of concrete ties from our Grand Island, NE facility through 2010 and our Tucson, AZ facility through 2012. While the UPRR will continue to purchase concrete ties under this agreement, we believe total concrete ties purchased by the UPRR in 2008 will be approximately 40% fewer than 2007 purchase levels. While we believe that the UPRR purchasing level for concrete ties will improve beyond 2008, we have taken certain steps to mitigate this loss of business by reducing the workforce at both of our facilities and other efficiency efforts including extending the cure times of the concrete ties. In addition, both of these facilities are actively pursuing sales opportunities to other third parties.

Our ARP facilities in Niles, OH and Pueblo, CO have contract renewals currently pending with certain Class 1 railroads which account for a significant portion of this division's business. If we are unable to successfully renew these contracts, our results of operations and financial position could be negatively impacted.

Certain of our operating groups sold, from time to time, to the DM&E both railroad and construction related materials. As a result of the DM&E's merger agreement with the Canadian Pacific Railway Limited (CP), certain of this business may be provided to the DM&E directly from other suppliers through existing CP relationships. The total amount of revenues associated for the year ended December 31, 2007 was approximately \$18.7 million. While these revenues generated lower than typical gross profit margins, the Company may not be able to successfully mitigate the impact of this potential loss of business.

We have made a strategic decision to limit our use of foreign suppliers for our new rail distribution business as we believe that the long-term impact of this decision will deliver positive impacts to our results of operations and financial position. Additionally, there have been more significant increases in the prices of these products from our international suppliers. Due to this decision, the short-term impact will reduce the sales recorded by our Rail Distribution division and negatively impact our results of operations and financial position.

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Our primary customer for track panels produced at our Pueblo, CO facility has not renewed its contract. The total amount of revenues associated with this contract for the year ended December 31, 2007 was approximately \$12.0 million. We do not believe that the loss of this contract will have a material, adverse impact on our results of operations or our financial position.

Although backlog is not necessarily indicative of future operating results, total Company backlog from continuing operations at June 30, 2008, was approximately \$192.2 million. The following table provides the backlog from continuing operations by business segment:

(In thousands)	June 30, 2008	Backlog December 31, 2007	June 30, 2007
Rail Products	\$ 60,605	\$ 61,597	\$ 78,770
Construction Products	121,683	70,342	85,152
Tubular Products	9,915	6,375	15,054
Total from Continuing Operations	\$ 192,203	\$ 138,314	\$ 178,976

We continue to evaluate the overall performance of our operations. A decision to down-size or terminate an existing operation could have a material adverse effect on near-term earnings but would not be expected to have a material adverse effect on the financial condition of the Company.

**Market Risk and Risk Management Policies**

The Company does not purchase or hold any derivative financial instruments for trading purposes. The Company uses derivative financial instruments to manage interest rate exposure on variable-rate debt, primarily by using interest rate collars and variable interest rate swaps. The Company's primary source of variable-rate debt comes from its revolving credit agreement.

At contract inception, the Company designates its derivative instruments as hedges. The Company recognizes all derivative instruments on the balance sheet at fair value. Fluctuations in the fair values of derivative instruments designated as cash flow hedges are recorded in accumulated other comprehensive income and reclassified into earnings as the underlying hedged items affect earnings. To the extent that a change in interest rate derivative does not perfectly offset the change in value of the interest rate being hedged, the ineffective portion is recognized in earnings immediately.

The Company is not subject to significant exposures to changes in foreign currency exchange rates. The Company will, however, manage its exposure to changes in foreign currency exchange rates on firm sale and purchase commitments by entering into foreign currency forward contracts. The Company's risk management objective is to reduce its exposure to the effects of changes in exchange rates on these transactions over the duration of the transactions.

During 2006, the Company entered into commitments to sell Canadian funds based on the anticipated receipt of Canadian funds from the sale of certain rail commencing in the second quarter of 2007 through the third quarter of 2008. The fair value of these instruments was a liability of \$0.1 million and \$0.2 million as of June 30, 2008 and December 31, 2007, respectively. The liability is recorded in Other Accrued Liabilities. During the first quarter of 2008, one of these Canadian dollar denominated commitments matured for a realized loss of approximately \$0.1 million.

**Forward-Looking Statements**

Statements relating to the value of the Company's share of potential future contingent payments related to the DM&E merger agreement with the Canadian Pacific Railway Limited (CP) are forward-looking statements and are subject to numerous contingencies and risk factors. The CP has stated that it may take several years for it to determine whether to construct the PRB expansion.

Our businesses could be affected adversely by significant changes in the price of steel, concrete, and other raw materials or the availability of existing and new piling and rail products. Our operating results may also be affected negatively by adverse weather conditions.

A substantial portion of our operations are heavily dependent on governmental funding of infrastructure projects. Many of these projects have Buy America or Buy American provisions. Significant changes in the level of government funding

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of these projects could have a favorable or unfavorable impact on our operating results. Additionally, government actions concerning Buy America provisions, taxation, tariffs, the environment, or other matters could impact our operating results.

A significant portion of our Construction segment net sales and profits were related to the purchase and resale of products procured from Chaparral Steel Company, previously our primary supplier of steel sheet piling and bearing pile. In September 2007, Gerdau Ameristeel Corporation acquired Chaparral. If we are unable to continue to distribute the products of Gerdau Ameristeel Corporation, our results of operations and financial position could be adversely affected. The Company does not believe there will be an effect on our existing relationship.

The Company cautions readers that various factors could cause the actual results of the Company to differ materially from those indicated by forward-looking statements made from time to time in news releases, reports, proxy statements, registration statements and other written communications (including the preceding sections of this Management's Discussion and Analysis), as well as oral statements, such as references made to the future profitability, made from time to time by representatives of the Company. For a discussion of some of the specific risk factors, that may cause such differences, see the Company's Form 10-K for the year ended December 31, 2007.

Except for historical information, matters discussed in such oral and written communications are forward-looking statements that involve risks and uncertainties, including but not limited to general business conditions, the availability of material from major suppliers, labor disputes, the impact of competition, the seasonality of the Company's business, the adequacy of internal and external sources of funds to meet financing needs, the Company's ability to curb its working capital requirements, taxes, inflation and governmental regulations. Sentences containing words such as believes, intends, anticipates, expects, or will generally should be considered forward-looking statements.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See the Market Risk and Risk Management Policies section under Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Item 4. CONTROLS AND PROCEDURES**

- a) L. B. Foster Company (Company) carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities and Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to timely alert them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.
  
- b) There have been no significant changes in the Company's internal controls over financial reporting that occurred in the period covered by this report that have materially affected or are likely to materially affect the Company's internal controls over financial reporting.

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

See Note 13, Commitments and Contingent Liabilities, to the Condensed Consolidated Financial Statements.

**Item 1A. RISK FACTORS**

There has not been any material change in the risk factors disclosure from that contained in the Company's 10-K for the year ended December 31, 2007.

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

At the Company's annual meeting held on May 28, 2008, the following individuals were elected to the Board of Directors:

Name	Authority Granted	Withheld Authority
Lee B. Foster II	9,515,819	751,884
Stan L. Hasselbusch	9,572,364	695,738
Peter McIlroy II	9,652,759	614,943
G. Thomas McKane	9,250,779	1,016,023
Diane B. Owen	9,124,945	1,142,757
William H. Rackoff	9,531,500	736,202
Suzanne B. Rowland	9,653,764	613,938

Also at the Company's annual meeting held on May 28, 2008, approval was granted for the 2006 Omnibus Incentive Plan, as amended and restated March 6, 2008, and the Executive Annual Incentive Compensation Plan with the following results:

	Authority Granted	Withheld Authority	Abstained Authority
2006 Omnibus Incentive Plan as amended and restated March 6, 2008	7,780,630	626,241	41,782
Executive Annual Incentive Compensation Plan	7,002,273	1,400,980	45,400

**Item 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

The Exhibits marked with an asterisk are filed herewith. All exhibits are incorporated herein by reference:

- 3.1 Restated Certificate of Incorporation, filed as Exhibit 3.1 to Form 10-Q for the quarter ended March 31, 2003.
- 3.2 Bylaws of the Registrant, as amended and filed as Exhibit 3.2 to Form 10-K for the year ended December 31, 2007.
- 4.0 Rights Amendment, dated as of May 15, 1997 between L. B. Foster Company and American Stock Transfer & Trust Company, including the form of Rights Certificate and the Summary of Rights attached thereto, filed as Exhibit 4.0 to Form 10-K for the year ended December 31, 2002.
- 4.1 Rights Amendment, dated as of October 24, 2006, between L. B. Foster Company and American Stock Transfer & Trust Company, including the form of Rights Certificate and the Summary of Rights attached thereto, filed as Exhibit 4B to Form 8-K on October 27, 2006.

10.0



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Amended and Restated Revolving Credit Agreement dated May 5, 2005, between Registrant and PNC Bank, N.A., LaSalle Bank N.A., and First Commonwealth Bank, filed as Exhibit 10.0 to Form 10-Q for the quarter ended March 31, 2005.

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- 10.0.1 First Amendment to Revolving Credit and Security Agreement dated September 13, 2005, between Registrant and PNC Bank, N.A., LaSalle Bank N.A., and First Commonwealth Bank, filed as Exhibit 10.0.1 to Form 8-K on September 14, 2005.
- 10.0.3 Third Amendment to Revolving Credit and Security Agreement dated February 8, 2007, between Registrant and PNC Bank, N.A., LaSalle Bank N.A., and First Commonwealth Bank, filed as Exhibit 10.0.3 to Form 8-K on February 9, 2007.
- 10.12 Lease between CXT Incorporated and Pentzer Development Corporation, dated April 1, 1993, filed as Exhibit 10.12 to Form 10-K for the year ended December 31, 2004.
- 10.12.1 Second Amendment dated March 12, 1996 to lease between CXT Incorporated and Crown West Realty, LLC, successor, filed as Exhibit 10.12.1 to Form 10-K for the year ended December 31, 2004.
- 10.12.2 Third Amendment dated November 7, 2002 to lease between CXT Incorporated and Crown West Realty, LLC, filed as Exhibit 10.12.2 to Form 10-K for the year ended December 31, 2002.
- 10.12.3 Fourth Amendment dated December 15, 2003 to lease between CXT Incorporated and Crown West Realty, LLC, filed as Exhibit 10.12.3 to Form 10-K for the year ended December 31, 2003.
- 10.12.4 Fifth Amendment dated June 29, 2004 to lease between CXT Incorporated and Park SPE, LLC, filed as Exhibit 10.12.4 to Form 10-K for the year ended December 31, 2004.
- 10.12.5 Sixth Amendment dated May 9, 2006 to lease between CXT Incorporated and Park SPE, LLC, filed as Exhibit 10.12.5 to Form 10-Q for the quarter ended June 30, 2006.
- 10.12.6 Seventh Amendment dated April 28, 2008 to lease between CXT Incorporated and Park SPE, LLC, filed as Exhibit 10.12.6 to Form 8-K of May 2, 2008.
- 10.13 Lease between CXT Incorporated and Crown West Realty, LLC, dated December 20, 1996, filed as Exhibit 10.13 to Form 10-K for the year ended December 31, 2004.
- 10.13.1 Amendment dated June 29, 2001 between CXT Incorporated and Crown West Realty, filed as Exhibit 10.13.1 to Form 10-K for the year ended December 31, 2007.
- 10.14 Lease of property in Tucson, AZ between CXT Incorporated and the Union Pacific Railroad Company dated May 27, 2005, filed as Exhibit 10.14 to Form 10-Q for the quarter ended June 30, 2005.
- 10.15 Lease of property in Grand Island, NE between CXT Incorporated and the Union Pacific Railroad Company, dated May 27, 2005, and filed as Exhibit 10.15 to Form 10-Q for the quarter ended June 30, 2005.
- 10.15.1 Industry Tract Contract between CXT Incorporated and the Union Pacific Railroad Company, dated May 27, 2005, filed as Exhibit 10.15 to Form 10-Q for the quarter ended June 30, 2005.
- 10.16 Lease Agreement dated March 3, 2008 between CCI-B Langfield I, LLC, as Lessor, and Registrant as Lessee, related to Registrant's threading operation in Harris County, Texas and filed as Exhibit 10.16 to Form 8-K on March 7, 2008.

- 10.16.1 First Amendment dated April 1, 2008 to lease between CCI-B Langfield I, LLC, as Lessor, and Registrant as Lessee, related to Registrant's threading operation in Harris County, Texas, filed as Exhibit 10.16.1 to Form 8-K on May 1, 2008.
- 10.17 Lease between Registrant and the City of Hillsboro, TX dated February 22, 2002, and filed as Exhibit 10.17 to Form 10-K for the year ended December 31, 2007.
- 10.19 Lease between Registrant and American Cast Iron Pipe Company for pipe-coating facility in Birmingham, AL, dated December 11, 1991, filed as Exhibit 10.19 to Form 10-K for the year ended December 31, 2002.

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- 10.19.1 Amendment to Lease between Registrant and American Cast Iron Pipe Company for pipe-coating facility in Birmingham, AL dated November 15, 2000, and filed as Exhibit 10.19.1 to Form 10-Q for the quarter ended March 31, 2006.
- 10.20 Equipment Purchase and Service Agreement by and between the Registrant and LaBarge Coating LLC, dated July 31, 2003, and filed as Exhibit 10.20 to Form 10-Q for the quarter ended September 30, 2003.
- 10.21 Agreement for Purchase and Sales of Concrete Ties between CXT Incorporated and the Union Pacific Railroad dated January 24, 2005, and filed as Exhibit 10.21 to Form 10-K for the year ended December 31, 2004.
- 10.21.1 Amendment to Agreement for Purchase and Sales of Concrete Ties between CXT Incorporated and the Union Pacific Railroad dated October 28, 2005, and filed as Exhibit 10.21.1 to Form 8-K on November 14, 2005.
- 10.24 Asset Purchase Agreement by and between the Registrant and The Reinforced Earth Company dated February 15, 2006, filed as Exhibit 10.24 to Form 10-K for the year ended December 31, 2005.
- 10.33.2 Amended and Restated 1985 Long-Term Incentive Plan as of May 25, 2005, filed as Exhibit 10.33.2 to Form 10-Q for the quarter ended June 30, 2005. \*\*
- 10.34 Amended and Restated 1998 Long-Term Incentive Plan as of May 25, 2005, filed as Exhibit 10.34 to Form 10-Q for the quarter ended June 30, 2005. \*\*
- 10.34.1 Amendment, effective May 24, 2006, to Amended and Restated 1998 Long-Term Incentive Plan as of May 25, 2005, filed as Exhibit 10.34.1 to Form 8-K on May 31, 2006. \*\*
- 10.45 Medical Reimbursement Plan (MRP1) effective January 1, 2006, filed as Exhibit 10.45 to Form 10-K for the year ended December 31, 2005. \*\*
- 10.45.1 Medical Reimbursement Plan (MRP2) effective January 1, 2006, filed as Exhibit 10.45.1 to Form 10-K for the year ended December 31, 2005. \*\*
- 10.46 Leased Vehicle Plan as amended and restated on September 1, 2007, filed as Exhibit 10.46 to Form 10-Q for the quarter ended September 30, 2007. \*\*
- 10.51 Supplemental Executive Retirement Plan as Amended and Restated on January 1, 2005, filed as Exhibit 10.51 to Form 8-K on December 8, 2005. \*\*
- 10.53 Directors resolution dated March 6, 2008, under which directors compensation was established, filed as Exhibit 10.53 to Form 10-Q for the quarter ended March 31, 2008. \*\*
- 10.55 Management Incentive Compensation Plan for 2007, filed as Exhibit 10.55 to Form 8-K on March 8, 2007. \*\*
- 10.56 2005 Three Year Incentive Plan, filed as Exhibit 10.56 to Form 8-K on May 31, 2005. \*\*
- 10.57 2006 Omnibus Incentive Plan, effective May 24, 2006, filed as Exhibit 10.57 to Form 8-K on May 31, 2006. \*\*
- 10.57.1 2006 Omnibus Plan, as amended and restated March 6, 2008, filed as exhibit 10.57.1 to Form 8-K on March 12, 2008. \*\*
- 10.58 Special Bonus Arrangement, effective May 24, 2006, filed as Exhibit 10.58 to Form 8-K on May 31, 2006. \*\*

- 10.59 Executive Annual Incentive Compensation Plan, filed as Exhibit 10.59 to Form 8-K on March 12, 2008. \*\*
- 10.60 Letter agreement on Lee B. Foster II s retirement, filed as Exhibit 10.59 to Form 8-K on April 22, 2008. \*\*
- 9 Exhibits marked with an asterisk are filed herewith.

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- \* 31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- \* 31.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- \* 32.0 Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
  
- \* Exhibits marked with an asterisk are filed herewith.
  
- \*\* Identifies management contract or compensatory plan or arrangement required to be filed as an Exhibit.
  
- ^ Portions of the exhibit have been omitted pursuant to a confidential treatment request.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

L.B. FOSTER COMPANY

(Registrant)

Date: August 8, 2008

By: /s/ David J. Russo

David J. Russo  
Senior Vice President,  
Chief Financial Officer and Treasurer  
(Duly Authorized Officer of Registrant)

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