

FOSTER L B CO  
Form 10-Q  
August 04, 2015  
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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, 2015

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**  
(State of Incorporation)

**25-1324733**  
(I. R. S. Employer

Identification No.)

**415 Holiday Drive, Pittsburgh, Pennsylvania**  
(Address of principal executive offices)

**15220**  
(Zip Code)

**(412) 928-3400**

(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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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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  (Do not check if a smaller reporting company) 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 29, 2015 |
|-------------------------------|------------------------------|
| Common Stock, Par Value \$.01 | 10,404,855 Shares            |

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L.B. FOSTER COMPANY AND SUBSIDIARIES

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L.B. FOSTER COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)

|   | June 30,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Current assets:   |                                 |                      |
| Cash and cash equivalents   | \$ 35,561                       | \$ 52,024            |
| Accounts receivable - net   | 103,241                         | 90,178               |
| Inventories - net   | 105,891                         | 95,089               |
| Current deferred tax assets   | 4,832                           | 3,497                |
| Prepaid income tax  | 3,190                           | 2,790                |
| Other current assets  | 7,634                           | 4,101                |
| <b>Total current assets</b>   | <b>260,349</b>                  | <b>247,679</b>       |
| Property, plant, and equipment - net  | 128,061                         | 74,802               |
| Other assets:   |                                 |                      |
| Goodwill  | 162,640                         | 82,949               |
| Other intangibles - net   | 141,377                         | 82,134               |
| Investments   | 5,784                           | 5,824                |
| Other assets  | 3,616                           | 1,733                |
| <b>Total assets</b>   | <b>\$ 701,827</b>               | <b>\$ 495,121</b>    |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                 |                      |
| Current liabilities:  |                                 |                      |
| Accounts payable  | \$ 56,341                       | \$ 67,166            |
| Deferred revenue  | 8,133                           | 8,034                |
| Accrued payroll and employee benefits   | 9,684                           | 13,419               |
| Accrued warranty  | 9,050                           | 11,500               |
| Current maturities of long-term debt  | 1,260                           | 676                  |
| Current deferred tax liabilities  | 77                              | 77                   |
| Other accrued liabilities   | 10,074                          | 7,899                |
| <b>Total current liabilities</b>  | <b>94,619</b>                   | <b>108,771</b>       |
| Long-term debt  | 217,212                         | 25,752               |
| Deferred tax liabilities  | 29,149                          | 10,945               |
| Other long-term liabilities   | 16,135                          | 13,765               |
| Stockholders equity:  |                                 |                      |
| Common stock, par value \$.01, authorized 20,000,000 shares; shares issued at June 30, 2015 and December 31, 2014, 11,115,779; shares outstanding at June 30, 2015 and December 31, 2014, 10,292,801 and 10,242,405, respectively | 111                             | 111                  |
| Paid-in capital   | 47,707                          | 48,115               |
| Retained earnings   | 331,489                         | 322,672              |
| Treasury stock - at cost, common stock, shares at June 30, 2015 and December 31, 2014, 822,978 and 873,374, respectively  | (21,398)                        | (23,118)             |

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|   |                   |                   |
|---|-------------------|-------------------|
| Accumulated other comprehensive loss              | (13,197)          | (11,892)          |
| <b>Total stockholders' equity</b>                 | 344,712           | 335,888           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$ 701,827</b> | <b>\$ 495,121</b> |

*The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.*

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## L.B. FOSTER COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

|  | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                  |
|--|--------------------------------|-----------------|------------------------------|------------------|
|  | 2015<br>(Unaudited)            | 2014            | 2015<br>(Unaudited)          | 2014             |
| Sales of goods   | \$ 146,780                     | \$ 151,906      | \$ 269,576                   | \$ 255,114       |
| Sales of services                                      | 24,639                         | 14,926          | 39,750                       | 23,132           |
| <b>Total sales</b>                                     | <b>171,419</b>                 | <b>166,832</b>  | <b>309,326</b>               | <b>278,246</b>   |
| Cost of goods sold                                     | 114,793                        | 125,419         | 210,987                      | 206,571          |
| Cost of services sold                                  | 19,537                         | 10,713          | 30,596                       | 16,848           |
| <b>Total cost of sales</b>                             | <b>134,330</b>                 | <b>136,132</b>  | <b>241,583</b>               | <b>223,419</b>   |
| <b>Gross profit</b>                                    | <b>37,089</b>                  | <b>30,700</b>   | <b>67,743</b>                | <b>54,827</b>    |
| Selling and administrative expenses                    | 24,278                         | 19,599          | 46,528                       | 37,624           |
| Amortization expense                                   | 3,456                          | 1,172           | 5,613                        | 2,313            |
| Interest expense                                       | 1,288                          | 126             | 1,901                        | 249              |
| Interest income  | (37)                           | (147)           | (94)                         | (291)            |
| Equity in loss (income) of nonconsolidated investments | 186                            | (142)           | 13                           | (346)            |
| Other loss (income)                                    | 95                             | (138)           | (708)                        | (273)            |
|  | 29,266                         | 20,470          | 53,253                       | 39,276           |
| <b>Income before income taxes</b>                      | <b>7,823</b>                   | <b>10,230</b>   | <b>14,490</b>                | <b>15,551</b>    |
| Income tax expense                                     | 2,461                          | 3,368           | 4,841                        | 5,040            |
| <b>Net income</b>                                      | <b>\$ 5,362</b>                | <b>\$ 6,862</b> | <b>\$ 9,649</b>              | <b>\$ 10,511</b> |
| Basic earnings per common share                        | \$ 0.52                        | \$ 0.67         | \$ 0.94                      | \$ 1.03          |
| Diluted earnings per common share                      | \$ 0.52                        | \$ 0.67         | \$ 0.93                      | \$ 1.02          |
| Dividends paid per common share                        | \$ 0.04                        | \$ 0.03         | \$ 0.08                      | \$ 0.06          |

*The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.*

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## L.B. FOSTER COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

|  | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|--|--------------------------------|----------|------------------------------|-----------|
|  | 2015                           | 2014     | 2015                         | 2014      |
|  | (Unaudited)                    |          | (Unaudited)                  |           |
| Net income   | \$ 5,362                       | \$ 6,862 | \$ 9,649                     | \$ 10,511 |
| Other comprehensive income (loss), net of tax:   |                                |          |                              |           |
| Foreign currency translation adjustment  | 2,901                          | 1,795    | (1,486)                      | 45        |
| Reclassification of pension liability adjustments to earnings, net of tax expense of \$47, \$26 and \$93, \$47 * | 92                             | 49       | 181                          | 90        |
| Other comprehensive income (loss), net of tax  | 2,993                          | 1,844    | (1,305)                      | 135       |
| Comprehensive income   | \$ 8,355                       | \$ 8,706 | \$ 8,344                     | \$ 10,646 |

\* Reclassifications out of accumulated other comprehensive income for pension obligations are charged to selling and administrative expense.

*The accompanying notes are an integral part of these 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<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2015                         | 2014      |
|   | (Unaudited)                  |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                              |           |
| Net income  | \$ 9,649                     | \$ 10,511 |
| Adjustments to reconcile net income to cash provided by operating activities: |                              |           |
| Deferred income taxes   | (425)                        | (419)     |
| Depreciation  | 6,775                        | 3,675     |
| Amortization  | 5,613                        | 2,313     |
| Equity in loss (income) of nonconsolidated investments                        | 13                           | (346)     |
| Loss on sales and disposals of property, plant, and equipment                 | 57                           | 12        |
| Share-based compensation  | 1,896                        | 1,799     |
| Excess income tax benefit from share-based compensation                       | (310)                        | (283)     |
| Change in operating assets and liabilities, net of acquisitions:              |                              |           |
| Accounts receivable   | 6,524                        | 4,279     |
| Inventories   | (7,832)                      | (7,595)   |
| Other current assets  | (103)                        | (1,799)   |
| Prepaid income tax  | (948)                        | 3,035     |
| Other noncurrent assets   | (1,257)                      | 107       |
| Dividends from LB Pipe & Coupling Products, LLC                               | 90                           | 540       |
| Accounts payable  | (13,101)                     | 13,091    |
| Deferred revenue  | (1,073)                      | 2,560     |
| Accrued payroll and employee benefits   | (5,699)                      | (1,857)   |
| Other current liabilities   | (1,113)                      | 2,005     |
| Other liabilities   | (690)                        | 60        |
| Net cash (used) provided by operating activities                              | (1,934)                      | 31,688    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                  |                              |           |
| Proceeds from the sale of property, plant, and equipment                      | 163                          | 184       |
| Capital expenditures on property, plant, and equipment                        | (8,246)                      | (7,682)   |
| Acquisitions, net of cash acquired  | (193,871)                    | (495)     |
| Capital contributions to equity method investments                            | (61)                         |           |
| Net cash used by investing activities   | (202,015)                    | (7,993)   |



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## L.B. FOSTER COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

|  | Six Months Ended<br>June 30,<br>2015      2014<br>(Unaudited) |           |
|--|---|-----------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                 |   |           |
| Repayments of debt   | (62,247)  | (54)      |
| Proceeds from debt   | 254,291   | 316       |
| Proceeds from exercise of stock options and stock awards     | 68  | 131       |
| Financing fees   | (1,670)   |           |
| Treasury stock acquisitions                                  | (962)   | (918)     |
| Cash dividends on common stock paid to shareholders          | (831)   | (620)     |
| Excess income tax benefit from share-based compensation      | 310   | 283       |
| Net cash provided (used) by financing activities             | 188,959   | (862)     |
| Effect of exchange rate changes on cash and cash equivalents | (1,473)   | 99        |
| Net (decrease) increase in cash and cash equivalents         | (16,463)  | 22,932    |
| Cash and cash equivalents at beginning of period             | 52,024  | 64,623    |
| Cash and cash equivalents at end of period                   | \$ 35,561   | \$ 87,555 |
| Supplemental disclosure of cash flow information:            |   |           |
| Interest paid  | \$ 1,471  | \$ 177    |
| Income taxes paid  | \$ 6,379  | \$ 2,954  |

*The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.*

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L.B. FOSTER COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. **FINANCIAL STATEMENTS**

(Dollars in thousands, except share data)

*Basis of Presentation*

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 U.S. 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 ending December 31, 2015. Amounts included in the balance sheet as of December 31, 2014 were derived from our audited balance sheet. This Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. In this Quarterly Report on Form 10-Q, references to Foster, we, us, our, and the Company refer collectively to L.B. Foster and its consolidated subsidiaries.

*Recently issued accounting standards*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), (ASU 2014-09), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating its implementation approach and assessing the impact of ASU 2014-09 on our financial position and results of operations.

In July 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-11, Simplifying the measurement of inventory. This ASU simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016 and for interim periods therein. Adoption of this ASU will not have a material impact on our financial position and results of operations.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The new guidance requires the accounting for the cost of licenses to be recognized separately from the fees for computing services. The guidance is effective for annual periods beginning after December 15, 2015. The provisions of the guidance may be applied prospectively or retrospectively. Adoption of this ASU will not have a material impact on our consolidated financial position, results of operations and cash flows.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, (ASU 2015-03). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Adoption of this ASU will not have a material impact on our financial position and results of operations.

*Reclassifications*

Certain amounts in previously issued financial statements have been reclassified to conform to the current period presentation. These reclassifications separately presented sales of services and cost of services sold to reflect the Company's increased service offerings attributable to the recent acquisitions disclosed in Note 3.



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The Company is a leading manufacturer, fabricator, and distributor of products and services for rail, construction, energy, and utility markets. The Company is organized and evaluated by product group, which is the basis for identifying reportable segments. Each segment represents a revenue-producing component of the Company for which separate financial information is produced internally and is subject to evaluation by the Company's chief operating decision maker in deciding how to allocate resources. Each segment is evaluated based upon their contribution to the Company's consolidated results based upon segment profit.

As a result of recently completed acquisitions, during the first quarter of 2015, the Company renamed the Rail Products and Tubular Products business segments to Rail Products and Services and Tubular and Energy Services, respectively. The name changes principally relate to adjacent market acquisitions which has created a platform to enhance our product and service offerings within the rail and energy markets. Excluding the addition of current year acquisitions, there were no changes to the divisions that have been aggregated within the segments nor were there changes to the historical reportable segment results.

The following table illustrates revenues and profits from operations of the Company by segment for the periods indicated:

|                             | Three Months Ended<br>June 30, 2015 |                   | Six Months Ended<br>June 30, 2015 |                   |
|-----------------------------|-------------------------------------|-------------------|-----------------------------------|-------------------|
|                             | Net<br>Sales                        | Segment<br>Profit | Net<br>Sales                      | Segment<br>Profit |
| Rail Products and Services  | \$ 86,882                           | \$ 6,413          | \$ 164,558                        | \$ 12,485         |
| Construction Products       | 49,516                              | 5,158             | 83,806                            | 6,386             |
| Tubular and Energy Services | 35,021                              | 358               | 60,962                            | 2,316             |
| Total                       | \$ 171,419                          | \$ 11,929         | \$ 309,326                        | \$ 21,187         |

|                             | Three Months Ended<br>June 30, 2014 |                   | Six Months Ended<br>June 30, 2014 |                   |
|-----------------------------|-------------------------------------|-------------------|-----------------------------------|-------------------|
|                             | Net<br>Sales                        | Segment<br>Profit | Net<br>Sales                      | Segment<br>Profit |
| Rail Products and Services  | \$ 107,484                          | \$ 6,836          | \$ 180,980                        | \$ 12,152         |
| Construction Products       | 41,810                              | 3,371             | 69,193                            | 4,587             |
| Tubular and Energy Services | 17,538                              | 2,726             | 28,073                            | 3,312             |
| Total                       | \$ 166,832                          | \$ 12,933         | \$ 278,246                        | \$ 20,051         |

Segment profits from operations, 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 operations from December 31, 2014. The internal cost of capital charges are eliminated during the consolidation process.

The following table provides a reconciliation of reportable segment net profit from operations to the Company's consolidated total:

|                                | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                | 2015                           | 2014      | 2015                         | 2014      |
| Income for reportable segments | \$ 11,929                      | \$ 12,933 | \$ 21,187                    | \$ 20,051 |
| Interest expense               | (1,288)                        | (126)     | (1,901)                      | (249)     |
| Interest income                | 37                             | 147       | 94                           | 291       |
| Other income                   | (95)                           | 138       | 708                          | 273       |
| LIFO income                    | 406                            | 202       | 400                          | 198       |

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|   |          |           |           |           |
|---|----------|-----------|-----------|-----------|
| Equity in (loss) income of nonconsolidated investments                        | (186)    | 142       | (13)      | 346       |
| Corporate expense, cost of capital elimination, and other unallocated charges | (2,980)  | (3,206)   | (5,985)   | (5,359)   |
| Income before income taxes  | \$ 7,823 | \$ 10,230 | \$ 14,490 | \$ 15,551 |

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The following table illustrates assets of the Company by segment:

|                              | June 30,<br>2015 | December 31,<br>2014 |
|------------------------------|------------------|----------------------|
| Rail Products and Services   | \$ 257,856       | \$ 239,951           |
| Construction Products        | 97,300           | 102,978              |
| Tubular and Energy Services  | 318,521          | 130,289              |
| Unallocated corporate assets | 36,039           | 30,192               |
| LIFO                         | (7,889)          | (8,289)              |
| Total                        | \$ 701,827       | \$ 495,121           |

**3. ACQUISITIONS****Inspection Oilfield Services (IOS)**

On March 13, 2015, the Company acquired IOS Holdings, Inc. for \$167,404, net of cash acquired and a net working capital receivable adjustment of \$2,363. The purchase agreement includes an earn-out provision for the seller to generate an additional \$60,000 of proceeds upon achieving certain levels of EBITDA during the three year period beginning on January 1, 2015. As of June 30, 2015, the Company has not accrued an estimated earn-out obligation based upon a probability weighted valuation model of the projected EBITDA results, which indicates that the minimum target will not be achieved. Approximately \$7,600 of the purchase price relates to amounts held in escrow to satisfy potential indemnity claims made under the purchase agreement. IOS is a leading independent provider of tubular management services with operations in every significant oil and gas producing region in the continental United States. The acquisition is included within our Tubular and Energy Services segment from the date of acquisition.

**Tew Holdings, LTD**

On January 13, 2015, the Company acquired Tew Holdings, LTD (Tew) for \$26,467, net of cash acquired. The purchase price includes approximately \$4,200 related to working capital and net debt adjustments. The non-domestic cash payment includes approximately \$600 which is held in escrow to satisfy potential indemnity claims made under the purchase agreement. Headquartered in Nottingham, UK, Tew provides application engineering solutions primarily to the rail market and other major industries. The results of Tew's operations are included within the Rail Products and Services segment from the date of acquisition.

**Chemtec Energy Services, L.L.C.**

On December 30, 2014, the Company acquired Chemtec Energy Services, L.L.C. (Chemtec) for \$66,719, net of cash received, which is inclusive of \$1,867 related to working capital adjustments. The cash payment included \$5,000 which is held in escrow to satisfy potential indemnity claims made under the purchase agreement. Chemtec is a domestic manufacturer and turnkey provider of blending, injection, and metering equipment for the oil and gas industry. The acquired business is included within our Tubular and Energy Services segment.

**FWO**

On October 29, 2014, the Company acquired FWO, a business of Balfour Beatty Rail GmbH for \$1,103, inclusive of a \$161 post-closing working capital receivable adjustment. FWO is engaged in the electronic track lubrication and maintenance business and has been included in our Rail Products and Services segment.

**Carr Concrete**

On July 7, 2014, the Company acquired Carr Concrete Corporation (Carr) for \$12,480, inclusive of a \$189 post-closing purchase price adjustment. Carr is a provider of pre-stressed and precast concrete products located in Waverly, WV and the transaction was funded with cash on hand. Included within the purchase price is \$1,000 which is held in escrow to satisfy potential indemnity claims made under the purchase agreement. The results of Carr's operations are included in our Construction Products segment.

**Acquisition Summary**

Each transaction was accounted for under the acquisition method of accounting under U.S. generally accepted accounting principles which requires an acquiring entity to recognize, with limited exceptions, all of the assets acquired and liabilities assumed in a transaction at fair value as of the acquisition date. Goodwill primarily represents the value paid for each acquisition's enhancement to the Company's product and service offerings and capabilities, as well as a premium payment related to the ability to control the acquired assets. The Company has concluded that intangible assets and goodwill values resulting from the Chemtec, FWO, and Carr transactions will be deductible for tax purposes. Acquisition related costs for the three and six-month period ended June 30, 2015 were \$225 and \$595.

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The following unaudited pro forma consolidated income statement presents the Company's results as if the acquisitions of IOS, Tew, and Chemtec had occurred on January 1, 2014:

|                            | Three months ended<br>June 30, |            | Six months ended<br>June 30, |            |
|----------------------------|--------------------------------|------------|------------------------------|------------|
|                            | 2015                           | 2014       | 2015                         | 2014       |
| Net sales                  | \$ 171,419                     | \$ 214,728 | \$ 325,399                   | \$ 374,845 |
| Gross profit               | 37,089                         | 45,623     | 72,214                       | 85,149     |
| Net income                 | 5,362                          | 10,600     | 9,693                        | 18,134     |
| Diluted earnings per share |                                |            |                              |            |
| As Reported                | \$ 0.52                        | \$ 0.67    | \$ 0.93                      | \$ 1.02    |
| Pro forma                  | \$ 0.52                        | \$ 1.03    | \$ 0.93                      | \$ 1.76    |

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

|                                | March 13,<br>2015 - IOS | January 13,<br>2015 - Tew | December 30,<br>2014 - Chemtec | October 29,<br>2014 - FWO | July 7,<br>2014 - Carr |
|--------------------------------|-------------------------|---------------------------|--------------------------------|---------------------------|------------------------|
| Allocation of Purchase Price   |                         |                           |                                |                           |                        |
| Current assets                 | \$ 19,877               | \$ 12,125                 | \$ 15,528                      | \$ 131                    | \$ 3,180               |
| Other assets                   | 708                     |                           |                                |                           | 45                     |
| Property, plant, and equipment | 51,453                  | 2,398                     | 4,705                          |                           | 7,648                  |
| Goodwill                       | 70,676                  | 8,772                     | 22,302                         | 971                       | 1,936                  |
| Other intangibles              | 50,354                  | 14,048                    | 33,130                         | 419                       | 1,348                  |
| Liabilities assumed            | (24,364)                | (6,465)                   | (6,756)                        | (418)                     | (1,677)                |
| Total                          | \$ 168,704              | \$ 30,878                 | \$ 68,909                      | \$ 1,103                  | \$ 12,480              |

The purchase price allocations for IOS, Tew, Chemtec, and FWO are based on preliminary valuations. If new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement recognized for assets or liabilities assumed, the Company will retrospectively adjust the amounts recognized as of the acquisition date.

Intangible asset values for the 2014 acquisition of Carr were finalized during 2015.

The following table summarizes the estimates of the fair values of the identifiable intangible assets acquired:

| Intangible Asset                   | March 13,<br>2015 - IOS | January 13,<br>2015 - Tew | December 30,<br>2014 - Chemtec | October 29,<br>2014 - FWO | July 7,<br>2014 - Carr |
|------------------------------------|-------------------------|---------------------------|--------------------------------|---------------------------|------------------------|
| Trade name                         | \$ 2,641                | \$ 870                    | \$ 3,149                       | \$                        | \$ 613                 |
| Customer relationships             | 41,171                  | 10,035                    | 23,934                         | 34                        | 524                    |
| Technology                         | 4,364                   | 2,480                     | 4,930                          | 341                       | 87                     |
| Non-competition agreements         | 2,178                   | 663                       | 1,117                          | 44                        | 124                    |
| Total identified intangible assets | \$ 50,354               | \$ 14,048                 | \$ 33,130                      | \$ 419                    | \$ 1,348               |



**Table of Contents****4. GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table represents the goodwill balance by reportable segment:

|                                     | Rail Products and<br>Services | Construction<br>Products | Tubular and Energy<br>Services | Total      |
|-------------------------------------|-------------------------------|--------------------------|--------------------------------|------------|
| Balance at December 31, 2014        | \$ 38,956                     | \$ 5,147                 | \$ 38,846                      | \$ 82,949  |
| Acquisitions                        | 8,772                         |                          | 70,676                         | 79,448     |
| Foreign currency translation impact | 243                           |                          |                                | 243        |
| Balance at June 30, 2015            | \$ 47,971                     | \$ 5,147                 | \$ 109,522                     | \$ 162,640 |

The Company performs goodwill impairment tests annually during the fourth quarter, unless it is determined that it is more likely than not that the fair value of a reporting unit is less than the carrying amount. Qualitative factors are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount. This assessment is used as a basis for determining whether it is necessary to perform an interim goodwill impairment test. The valuation of goodwill assigned to our recently acquired energy businesses was based upon long-term forecasts of the respective businesses. As a result of the continued depressed oil and gas markets, it is possible that the acquired businesses will not realize their forecasts.

The following table represents the gross other intangible assets balance by reportable segment:

|                             | June 30,<br>2015 | December 31,<br>2014 |
|-----------------------------|------------------|----------------------|
| Rail Products and Services  | \$ 59,273        | \$ 44,781            |
| Construction Products       | 3,178            | 3,178                |
| Tubular and Energy Services | 98,166           | 47,812               |
|                             | \$ 160,617       | \$ 95,771            |

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The components of the Company's intangible assets are as follows:

|                            | Weighted Average<br>Amortization Period<br>In<br>Years | Gross<br>Carrying<br>Value | June 30, 2015 |            |
|----------------------------|--|----------------------------|---------------|------------|
|                            |  |                            | Accumulated   | Net        |
|                            |  |                            | Amortization  | Carrying   |
|                            |  |                            |               | Amount     |
| Non-compete agreements     | 4  | \$ 7,004                   | \$ (1,503)    | \$ 5,501   |
| Patents                    | 10   | 531                        | (169)         | 362        |
| Customer relationships     | 16   | 96,017                     | (7,247)       | 88,770     |
| Supplier relationships     | 5  | 350                        | (301)         | 49         |
| Trademarks and trade names | 13   | 14,308                     | (2,413)       | 11,895     |
| Technology                 | 13   | 42,407                     | (7,607)       | 34,800     |
|                            |  | \$ 160,617                 | \$ (19,240)   | \$ 141,377 |

|                            | Weighted Average<br>Amortization Period<br>In<br>Years | Gross<br>Carrying<br>Value | December 31, 2014 |           |
|----------------------------|--|----------------------------|-------------------|-----------|
|                            |  |                            | Accumulated       | Net       |
|                            |  |                            | Amortization      | Carrying  |
|                            |  |                            |                   | Amount    |
| Non-compete agreements     | 5  | \$ 4,143                   | \$ (705)          | \$ 3,438  |
| Patents                    | 10   | 564                        | (189)             | 375       |
| Customer relationships     | 19   | 44,450                     | (4,679)           | 39,771    |
| Supplier relationships     | 5  | 350                        | (268)             | 82        |
| Trademarks and trade names | 14   | 10,765                     | (1,855)           | 8,910     |
| Technology                 | 14   | 35,499                     | (5,941)           | 29,558    |
|                            |  | \$ 95,771                  | \$ (13,637)       | \$ 82,134 |

Intangible assets are amortized over their useful lives ranging from 5 to 25 years, with a total weighted average amortization period of approximately 15 years. Amortization expense for the three-month periods ended June 30, 2015 and 2014 was \$3,456 and \$1,172, respectively. Amortization expense for the six-month periods ended June 30, 2015 and 2014 was \$5,613 and \$2,313, respectively.

Estimated amortization expense for the remainder of 2015 and thereafter is as follows:

|                     | Amortization Expense |
|---------------------|----------------------|
| 2015                | \$ 6,551             |
| 2016                | 13,073               |
| 2017                | 12,171               |
| 2018                | 11,840               |
| 2019                | 11,118               |
| 2020 and thereafter | 86,624               |
|                     | \$ 141,377           |

**5. ACCOUNTS RECEIVABLE**

Credit is extended based upon an evaluation of the customer's financial condition and while collateral is not required, the Company often receives surety bonds that guarantee payment. Credit terms are consistent with industry standards and practices. Trade accounts receivable at June 30, 2015 and December 31, 2014 have been reduced by an allowance for doubtful accounts of \$1,302 and \$1,036, respectively.



**Table of Contents****6. INVENTORIES**

Inventories of the Company at June 30, 2015 and December 31, 2014 are summarized in the following table:

|                                    | June 30,<br>2015 | December 31,<br>2014 |
|------------------------------------|------------------|----------------------|
| Finished goods                     | \$ 73,542        | \$ 65,335            |
| Work-in-process                    | 13,298           | 16,188               |
| Raw materials                      | 26,940           | 21,855               |
| <br>                               |                  |                      |
| Total inventories at current costs | 113,780          | 103,378              |
| Less: LIFO reserve                 | (7,889)          | (8,289)              |
|                                    | <br>\$ 105,891   | <br>\$ 95,089        |

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. Interim LIFO calculations are based on management's estimates of expected year-end levels and costs.

**7. INVESTMENTS**

The Company is a member of a joint venture, LB Pipe & Coupling Products, LLC (LB Pipe JV), in which it maintains a 45% ownership interest. The LB Pipe JV manufactures, markets, and sells various precision coupling products for the energy, utility, and construction markets and is scheduled to terminate on June 30, 2019.

Under applicable guidance for variable interest entities in ASC 810, Consolidation, the Company determined that the LB Pipe JV is a variable interest entity. The Company concluded that it is not the primary beneficiary of the variable interest entity, as the Company does not have a controlling financial interest and does not have the power to direct the activities that most significantly impact the economic performance of the LB Pipe JV. Accordingly, the Company concluded that the equity method of accounting remains appropriate.

As of June 30, 2015 and December 31, 2014, the Company had a nonconsolidated equity method investment of \$5,659 and \$5,746, respectively, in the LB Pipe JV and other equity investments totaling \$125 and \$78, respectively.

The Company recorded equity in the loss of the LB Pipe JV of \$186 and equity in the income of the LB Pipe JV of \$142 for the three months ended June 30, 2015 and 2014, respectively. For the six months ended June 30, 2015 and 2014, the Company recorded equity in the income of the LB Pipe JV of \$3 and \$346, respectively. During the three-month period ending June 30, 2014 the Company received cash distributions of \$450. Cash distributions of \$90 and \$540 were received for the six months ended June 30, 2015 and 2014, respectively. There were no changes to the Company's 45% ownership interest as a result of the proportional distribution.

The Company's exposure to loss results from its capital contributions, net of the Company's share of the LB Pipe JV's income or loss, and its net investment in the direct financing lease covering the facility used by the LB Pipe JV for its operations. The carrying amounts with the maximum exposure to loss of the Company at June 30, 2015 and December 31, 2014, respectively, are as follows:

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| LB Pipe JV equity method investment      | \$ 5,659         | \$ 5,746             |
| Net investment in direct financing lease | 1,053            | 1,117                |
|  | <br>\$ 6,712     | <br>\$ 6,863         |

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The Company is leasing five acres of land and two facilities to the LB Pipe JV through June 30, 2019, with a 5.5 year renewal period. The current monthly lease payments approximate \$17, with a balloon payment of approximately \$488, which is required to be paid either at the termination of the lease, allocated over the renewal period, or during the initial term of the lease. This lease qualifies as a direct financing lease under the applicable guidance in ASC 840-30, Leases.

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The following is a schedule of the direct financing minimum lease payments for the remainder of 2015 and the years 2016 and thereafter:

|      | Minimum Lease Payments |       |
|------|------------------------|-------|
| 2015 | \$                     | 58    |
| 2016 |                        | 131   |
| 2017 |                        | 140   |
| 2018 |                        | 150   |
| 2019 |                        | 574   |
|      | \$                     | 1,053 |

**8. DEFERRED REVENUE**

Deferred revenue of \$8,133 and \$8,034 as of June 30, 2015 and December 31, 2014, respectively, consists of customer payments received for which the revenue recognition criteria have not yet been met as well as billings in excess of costs on percentage of completion projects. Advanced payments from customers typically relate to contracts that the Company has significantly fulfilled its obligations and the customer has paid, but due to the Company's continuing involvement with the materials, revenue is precluded from being recognized until title, ownership, and risk of loss have passed to the customer.

**9. LONG-TERM DEBT****United States**

Long-term debt consists of the following:

|   | June 30,<br>2015  | December 31,<br>2014 |
|---|-------------------|----------------------|
| Revolving credit facility               | \$ 214,191        | \$ 24,200            |
| Capital leases and financing agreements | 4,281             | 2,228                |
| <b>Total</b>                            | <b>218,472</b>    | <b>26,428</b>        |
| Less current maturities                 | 1,260             | 676                  |
| <b>Long-term portion</b>                | <b>\$ 217,212</b> | <b>\$ 25,752</b>     |

On March 13, 2015, L.B. Foster (the Company), its domestic subsidiaries, and certain of its Canadian subsidiaries entered into an amended and restated \$335,000 Revolving Credit Facility Credit Agreement (Amended Credit Agreement) with PNC Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., Citizens Bank of Pennsylvania, and Branch Banking and Trust Company. This Amended Credit Agreement modifies the prior revolving credit facility which had a maximum credit line of \$200,000. The Amended Credit Agreement provides for a five-year, unsecured revolving credit facility that permits borrowings of up to \$335,000 for the U.S. borrowers and a sublimit of the equivalent of \$25,000 U.S. dollars that is available to the Canadian borrowers. The Amended Credit Agreement's accordion feature permits the Company to increase the available revolving borrowings under the facility by up to an additional \$100,000 subject to the Company's receipt of increased commitments from existing or new lenders and to certain conditions being satisfied.

Borrowings under the Amended Credit Agreement will bear interest at rates based upon either the base rate or Euro-rate plus applicable margins. Applicable margins are dictated by the ratio of the Company's indebtedness less consolidated cash on hand to the Company's consolidated EBITDA, as defined in the underlying Amended Credit Agreement. The base rate is the highest of (a) PNC Bank's prime rate, (b) the Federal Funds Rate plus 0.50% or (c) the daily Euro-rate (as defined in the Amended Credit Agreement) plus 1.00%. The base rate and Euro-rate spreads range from 0.00% to 1.50% and 1.00% to 2.50%, respectively.

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The Amended Credit Agreement includes two financial covenants: (a) Leverage Ratio, defined as the Company's Indebtedness less consolidated cash on hand, in excess of \$15,000, divided by the Company's consolidated EBITDA, which must not exceed 3.25 to 1.00 and (b) Minimum Interest Coverage, defined as consolidated EBITDA less Capital Expenditures divided by consolidated interest expense, which must be no less than 3.00 to 1.00.

The Amended Credit Agreement permits the Company to pay dividends, distributions, and make redemptions with respect to its stock provided no event of default or potential default (as defined in the Amended Credit Agreement) has occurred prior to or after giving effect to the dividend, distribution, or redemption. Dividends, distributions, and redemptions are

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capped at \$25,000 per year when funds are drawn on the facility. If no drawings on the facility exist, dividends, distributions, and redemptions in excess of \$25,000 per year are subjected to a limitation of \$75,000 in the aggregate over the life of the facility. The \$75,000 aggregate limitation also permits certain loans, investments, and acquisitions.

Other restrictions exist at all times including, but not limited to, limitation of the Company's sale of assets, other indebtedness incurred by either the borrowers or the non-borrower subsidiaries of the Company, guarantees, and liens.

As of June 30, 2015, the Company was in compliance with the Credit Agreement's covenants.

At June 30, 2015, the Company had outstanding letters of credit of approximately \$526 and had gross available borrowing capacity of \$120,283. The maturity date of the facility is March 13, 2020.

**United Kingdom**

A subsidiary of the Company has a working capital facility with NatWest Bank for its United Kingdom operations which includes an overdraft availability of £1,500 pounds sterling (approximately \$2,356 at June 30, 2015). This credit facility supports the subsidiary's working capital requirements and is collateralized by substantially all of the assets of its United Kingdom operations. The interest rate on this facility is the financial institution's base rate plus 1.50%. Outstanding performance bonds reduce availability under this credit facility. The subsidiary of the Company had no outstanding borrowings under this credit facility as of June 30, 2015. There was approximately \$17 in outstanding guarantees (as defined in the underlying agreement) at June 30, 2015. This credit facility was renewed during the third quarter of 2014 with no significant changes to the underlying terms or conditions in the facility. It is the Company's intention to renew this credit facility with NatWest Bank during the annual review of the credit facility in 2015.

The United Kingdom loan agreements contain certain financial covenants that require that subsidiary to maintain senior interest and cash flow coverage ratios. The subsidiary was in compliance with these financial covenants as of June 30, 2015. The subsidiary had available borrowing capacity of \$2,339 at June 30, 2015.

**10. EARNINGS PER COMMON SHARE**

The following table sets forth the computation of basic and diluted earnings per common share (share amounts in thousands):

|  | June 30, |          | June 30, |           |
|--|----------|----------|----------|-----------|
|  | 2015     | 2014     | 2015     | 2014      |
| Numerator for basic and diluted earnings per common share - Income available to common stockholders:                     |          |          |          |           |
| Net income   | \$ 5,362 | \$ 6,862 | \$ 9,649 | \$ 10,511 |
| Denominator:   |          |          |          |           |
| Weighted average shares outstanding  | 10,284   | 10,223   | 10,272   | 10,210    |
| Denominator for basic earnings per common share  | 10,284   | 10,223   | 10,272   | 10,210    |
| Effect of dilutive securities:   |          |          |          |           |
| Employee stock options   |          | 6        | 1        | 7         |
| Other stock compensation plans   | 86       | 80       | 112      | 92        |
| Dilutive potential common shares   | 86       | 86       | 113      | 99        |
| Denominator for diluted earnings per common share - adjusted weighted average shares outstanding and assumed conversions | 10,370   | 10,309   | 10,385   | 10,309    |
| Basic earnings per common share  | \$ 0.52  | \$ 0.67  | \$ 0.94  | \$ 1.03   |



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|                                   |         |         |         |         |
|-----------------------------------|---------|---------|---------|---------|
| Diluted earnings per common share | \$ 0.52 | \$ 0.67 | \$ 0.93 | \$ 1.02 |
| Dividends paid per common share   | \$ 0.04 | \$ 0.03 | \$ 0.08 | \$ 0.06 |

**Table of Contents****11. STOCK-BASED COMPENSATION**

The Company applies the provisions of FASB ASC 718, Compensation – Stock Compensation, to account for the Company's share-based compensation. Share-based compensation cost is measured at the grant date based on the calculated fair value of the award and is recognized over the employees' requisite service period. The Company recorded stock compensation expense of \$1,276 and \$1,224 for the three-month periods ended June 30, 2015 and 2014, respectively, related to restricted stock awards and performance unit awards. Stock compensation expense of \$1,896 and \$1,799 was recorded for the six-month periods ended June 30, 2015 and 2014, respectively. As of June 30, 2015, unrecognized compensation expense for awards the Company expects to vest approximated \$4,858. The Company will recognize this expense over the upcoming four year period through June 2019.

Shares issued as a result of vested stock-based compensation generally will be from previously issued shares which have been reacquired by the Company and held as Treasury shares or authorized but previously unissued common stock.

The excess income tax benefit realized for the tax deduction from stock-based compensation approximated \$310 and \$283 for the six months ended June 30, 2015 and 2014, respectively. This excess income tax benefit is included in cash flows from financing activities in the Condensed Consolidated Statements of Cash Flows.

**Stock Option Awards**

As of June 30, 2015, there were no outstanding and exercisable stock options. During the first quarter of 2015, the remaining 7,500 outstanding stock options were exercised at a weighted average exercise price of \$9.08. During the three and six month periods ended June 30, 2014, 11,250 stock options with a weighted average exercise price per share of \$11.67 were exercised. There were no new grants or cancellations of stock option awards during the three and six-month periods ended June 30, 2015 and 2014.

**Restricted Stock Awards and Performance Unit Awards**

Under the amended and restated 2006 Omnibus Stock Incentive Plan, the Company grants eligible employees restricted stock and performance unit awards. The forfeitable restricted stock awards granted prior to March 2015 generally time-vest after a four year holding period, and those granted in March 2015 generally time-vest ratably over a three year period, unless indicated otherwise by the underlying restricted stock award agreement. Performance unit awards are offered annually under separate three-year long-term incentive plans. Performance units are subject to forfeiture and will be converted into common stock of the Company based upon the Company's performance relative to performance measures and conversion multiples as defined in the underlying plan. If the Company's estimate of the number of performance stock awards expected to vest changes in a subsequent accounting period, cumulative compensation expense could increase or decrease. The change will be recognized in the current period for the vested shares and would change future expense over the remaining vesting period.

The following table summarizes the restricted stock award and performance unit award activity for the period ended June 30, 2015:

|  | Restricted<br>Stock<br>Units | Performance<br>Stock<br>Units | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|--|------------------------------|-------------------------------|--|
| Outstanding at December 31, 2014                 | 108,237                      | 71,990                        | \$ 36.25   |
| Granted  | 29,656                       | 41,114                        | 45.00  |
| Vested   | (24,839)                     | (23,877)                      | 30.27  |
| Adjustment for incentive awards expected to vest |                              | 3,844                         | 47.71  |
| Canceled   | (1,000)                      |                               | 38.44  |
| Outstanding at June 30, 2015                     | 112,054                      | 93,071                        | \$ 40.87   |

**Table of Contents****12. RETIREMENT PLANS****Retirement Plans**

The Company has seven retirement plans which cover its hourly and salaried employees in the United States: three defined benefit plans (one active / two frozen) and four defined contribution plans. Employees are eligible to participate in the appropriate plan based on employment classification. The Company's funding to the defined benefit and defined contribution plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA), applicable plan policy and investment guidelines. The Company's policy is to contribute at least the minimum in accordance with the funding standards of ERISA.

The Company's subsidiary, L.B. Foster Rail Technologies, Inc. (Rail Technologies), maintains two defined contribution plans for its employees in Canada, as well as a post-retirement benefit plan. In the United Kingdom, Rail Technologies maintains both a defined contribution plan and a defined benefit plan.

**United States Defined Benefit Plans**

Net periodic pension costs for the United States defined benefit pension plans for the three and six-month periods ended June 30, 2015 and 2014 are as follows:

|   | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                |
|---|--------------------------------|----------------|------------------------------|----------------|
|   | 2015                           | 2014           | 2015                         | 2014           |
| Service cost                              | \$ 9                           | \$ 6           | \$ 19                        | \$ 12          |
| Interest cost                             | 185                            | 192            | 370                          | 385            |
| Expected return on plan assets            | (204)                          | (242)          | (408)                        | (484)          |
| Recognized net actuarial loss             | 69                             | 17             | 138                          | 33             |
| <b>Net periodic pension cost (income)</b> | <b>\$ 59</b>                   | <b>\$ (27)</b> | <b>\$ 119</b>                | <b>\$ (54)</b> |

The Company does not expect to contribute to its United States defined benefit plans in 2015.

**United Kingdom Defined Benefit Plans**

Net periodic pension costs for the United Kingdom defined benefit pension plan for the three and six-month periods ended June 30, 2015 and 2014 are as follows:

|   | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|---|--------------------------------|--------------|------------------------------|--------------|
|   | 2015                           | 2014         | 2015                         | 2014         |
| Interest cost   | \$ 77                          | \$ 101       | \$ 153                       | \$ 200       |
| Expected return on plan assets                            | (83)                           | (95)         | (166)                        | (189)        |
| Amortization of prior service costs and transition amount | 5                              | (7)          | 10                           | (14)         |
| Recognized net actuarial loss                             | 59                             | 50           | 117                          | 100          |
| <b>Net periodic pension cost</b>                          | <b>\$ 58</b>                   | <b>\$ 49</b> | <b>\$ 114</b>                | <b>\$ 97</b> |

United Kingdom regulations require trustees to adopt a prudent approach to funding required contributions to defined benefit pension plans. Employer contributions of \$283 are anticipated to the United Kingdom L.B. Foster Rail Technologies, Inc. pension plan during 2015. For the six months ended June 30, 2015, the Company contributed approximately \$146 to the plan.



**Table of Contents****Defined Contribution Plans**

The Company sponsors seven defined contribution plans for hourly and salaried employees across our domestic and international facilities. The following table summarizes the expense associated with the contributions made to these plans.

|                | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|----------------|--------------------------------|--------|------------------------------|----------|
|                | 2015                           | 2014   | 2015                         | 2014     |
| United States  | \$ 747                         | \$ 545 | \$ 1,429                     | \$ 1,118 |
| Canada         | 55                             | 56     | 114                          | 120      |
| United Kingdom | 115                            | 30     | 198                          | 68       |
|                | \$ 917                         | \$ 631 | \$ 1,741                     | \$ 1,306 |

**13. COMMITMENTS AND CONTINGENT LIABILITIES****Product Liability Claims**

The Company is subject to product warranty claims that arise in the ordinary course of its business. For certain manufactured products, the Company maintains a product warranty accrual which is adjusted on a monthly basis as a percentage of cost of sales. The product warranty accrual is periodically adjusted based on the identification or resolution of known individual product warranty claims. The following table sets forth the Company's product warranty accrual:

|                                 | Warranty Liability |
|---------------------------------|--------------------|
| Balance at December 31, 2014    | \$ 11,500          |
| Additions to warranty liability | 529                |
| Warranty liability utilized     | (3,032)            |
| Acquisitions                    | 53                 |
| Balance at June 30, 2015        | \$ 9,050           |

Included within the above table are concrete tie warranty reserves of approximately \$7,756 and \$10,331 as of June 30, 2015 and December 31, 2014, respectively. The reduction in the concrete tie reserve balance relates to warranty claims satisfied through the replacement of concrete ties during the six-month period ended June 30, 2015.

**Union Pacific Railroad Matter**

On July 12, 2011, Union Pacific Railroad (UPRR) notified (UPRR Notice) the Company and its subsidiary, CXT Incorporated (CXT), of a warranty claim under CXT's 2005 supply contract relating to the sale of pre-stressed concrete railroad ties to UPRR. UPRR asserted that a significant percentage of concrete ties manufactured in 2006 through 2011 at CXT's Grand Island, NE facility failed to meet contract specifications, had workmanship defects, and were cracking and failing prematurely. Of the 3.0 million ties manufactured between 1998 and 2011 from the Grand Island, NE facility, approximately 1.6 million ties were sold during the period UPRR had claimed nonconformance. The 2005 supply contract called for each concrete tie which failed to conform to the specifications or had a material defect in workmanship to be replaced with 1.5 new concrete ties, provided, that UPRR within five years of the sale of a concrete tie, notified CXT of such failure to conform or such defect in workmanship. The UPRR Notice did not specify how many ties manufactured during this period were defective nor the exact nature of the alleged workmanship defect.

Following the UPRR Notice, the Company worked with material scientists and pre-stressed concrete experts to test a representative sample of Grand Island, NE concrete ties and assess warranty claims for certain concrete ties made in its Grand Island, NE facility between 1998 and 2011. The Company discontinued manufacturing operations in Grand Island, NE in early 2011.

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In late 2012, the Company and CXT agreed to an amendment of the warranty and certain related terms of the 2005 supply contract. Subsequently, in November 2013, the Company received notice from UPRR asserting a material breach of the 2005 supply contract. The Company disputed the notice, but the parties have been unable to reach agreement on disputed UPRR claims that the Company contends do not meet the criteria for replacement per the amended 2005 supply agreement.

On January 23, 2015, UPRR filed a Complaint and Demand for Jury Trial in the District Court for Douglas County, NE against the Company and its subsidiary, CXT, asserting among other matters that the Company breached its express

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warranty, breached an implied covenant of good faith and fair dealing, anticipatorily repudiated its warranty obligations, and that UPRR's exclusive and limited remedy provisions in the supply agreement have failed of their essential purpose which entitles UPRR to recover all incidental and consequential damages. The Complaint seeks to cancel all duties of UPRR under the contract, to adjudge the Company as having no remaining rights under the contracts, and to recover damages in an amount to be determined at trial for the value of unfulfilled warranty replacement ties and ties likely to become warranty eligible, for costs of cover for replacement ties, and for various incidental and consequential damages. The amended 2005 supply agreement provides that UPRR's exclusive remedy is to receive a replacement tie that meets the contract specifications for each tie that failed to meet the contract specifications or otherwise contained a material defect provided that the Company receives written notice of such failure or defect within 15 years after that tie was produced. The amended 2005 supply agreement continues to provide that the Company's warranty does not apply to ties that (a) have been repaired or altered without the Company's written consent in such a way as to affect the stability or reliability thereof, (b) have been subject to misuse, negligence, or accident, or (c) have been improperly maintained or used contrary to the specifications for which such ties were produced. The amended 2005 supply agreement also continues to provide that the Company's warranty is in lieu of all other express or implied warranties and that neither party shall be subject to or liable for any incidental or consequential damages to the other party. The dispute is largely based on (1) claims submitted which the Company believes are for ties inaccurately rated that are not the responsibility of the Company and claims that do not meet the criteria of a warranty replacement and (2) UPRR's assertion, which the Company vigorously disputes, that UPRR in future years will be entitled to warranty replacement ties for virtually all of the Grand Island ties. Many thousands of Grand Island ties have been performing in track for over ten years. In addition, a significant amount of Grand Island ties were rated by both parties in the excellent category of the rating system. The Company filed an Answer and Counterclaim on June 29, 2015 and anticipates seeking to amend its response to include additional counterclaims based on subsequent conduct by UPRR. The Company believes UPRR's claims are without merit and intends to continue to vigorously defend itself.

In November and December of 2014, the Company received additional notices from the UPRR asserting that ties manufactured in 2000 were defective and again asserting material breaches of the amended 2005 supply agreement relating to warranty tie replacements as well as certain new ties provided to the UPRR being out of specification. In June 2015, UPRR delivered an additional notice alleging defects in ties produced in the Company's Tucson and Spokane locations and other claimed material breaches which the Company contends are unfounded.

On June 17, 2015, UPRR issued formal notice of the termination of the concrete tie supply agreement as well as the termination of the lease agreement at the Tucson, AZ production facility. As a result of the formal notice of termination, the Company incurred a \$409 impairment charge related to leasehold improvements and other fixed assets at our Tucson, AZ concrete tie facility. The charge has been included within costs of goods sold.

The Company continues to engage in discussions in an effort to resolve this matter, however, we cannot predict that such discussions will be successful, the results of the litigation with UPRR, or whether any settlement or judgment amounts will be within the range of our estimated accruals for loss contingencies. Future potential costs pertaining to UPRR's claims and the outcome of UPRR litigation could result in a material adverse effect on our results of operations, financial condition, and cash flows.

**Environmental and Legal Proceedings**

The Company is subject to national, state, foreign, provincial, and/or local laws and regulations relating to the protection of the environment. 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.

As of June 30, 2015 and December 31, 2014, the Company maintained environmental and litigation reserves approximating \$6,714 and \$3,344, respectively. The following table sets forth the Company's environmental obligation:

|  | Environmental liability |
|--|-------------------------|
| Balance at December 31, 2014           | \$ 3,344                |
| Additions to environmental obligations | 13                      |
| Environmental obligations utilized     | (103)                   |
| Acquisitions                           | 3,460                   |
| <b>Balance at June 30, 2015</b>        | <b>\$ 6,714</b>         |

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The Company is also 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.



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14. INCOME TAXES

The Company's effective income tax rate for the three and six months ended June 30, 2015 was 31.5% and 33.4%, respectively, and 32.9% and 32.4%, respectively, for the three and six months ended June 30, 2014. The Company's effective tax rate for the three and six months ended June 30, 2015 and 2014 differed from the federal statutory rate of 35% primarily due to state income taxes, U.S. domestic production activities deductions, operations in foreign jurisdictions with lower statutory tax rates, and the recognition of previously unrecognized uncertain state tax benefits.

15. SUBSEQUENT EVENTS

Management evaluated all activity of the Company and concluded that no subsequent events have occurred that would require recognition in the Condensed Consolidated Financial Statements or disclosure in the Notes to the Condensed Consolidated Financial Statements.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****(Dollars in thousands, except share data)****Forward-Looking Statements**

*This Quarterly Report on Form 10-Q contains forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Many of the forward-looking statements are located in Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Sentences containing words such as believe, intend, may, expect, should, could, anticipate, plan, estimate, predict, project, or their negatives, or other similar expressions generally should be considered forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q may concern, among other things, the Company's expectations regarding our strategy, goals, projections and plans regarding our financial position, liquidity and capital resources, the outcome of litigation and product warranty claims, results of operations, decisions regarding our strategic growth initiatives, market position, and product development, all of which are based on current estimates that involve inherent risks and uncertainties. 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. Accordingly, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Among the factors that could cause the actual results to differ materially from those indicated in the forward-looking statements are risks and uncertainties related to: an economic slowdown in the markets we serve, the risk of doing business in international markets, a decrease in freight or passenger rail traffic, sustained declines in energy prices, a lack of state or federal funding for new infrastructure projects, increased regulation including conflict minerals, an increase in manufacturing or material costs, our ability to effectuate our strategy including evaluating potential opportunities such as strategic acquisitions, joint ventures, and other initiatives, and our ability to effectively integrate new businesses and realize anticipated benefits, the timeliness and availability of material from major suppliers, labor disputes, the impact of competition, variances in current accounting estimates and their ultimate outcomes, 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 and manage indebtedness, domestic and international income taxes, foreign currency fluctuations, inflation, the ultimate number of concrete ties that will have to be replaced pursuant to product warranty claims, an overall resolution of the related contract claims, the outcome of a lawsuit filed by Union Pacific Railroad (UPRR) as well as a reduction of future business with UPRR, risk inherent in litigation, and domestic and foreign governmental regulations. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forward-looking statements prove incorrect, actual outcomes could vary materially from those indicated. The risks and uncertainties that may affect the operations, performance and results of the Company's business and forward-looking statements include, but are not limited to, those set forth under Item 1A, Risk Factors section of our Annual Report on Form 10-K and our other periodic filings with the Securities and Exchange Commission.*

*The forward looking statements in this report are made as of the date of this report and we assume no obligation to update or revise any forward looking statement, whether as a result of new information, future developments, or otherwise.*

**General Overview**

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

**Table of Contents****Quarter-to-date Results**

|                             | Three Months Ended |                   | Percent of Total Net Sales |                | Percent Increase/ (Decrease) 2015 vs. 2014 |
|-----------------------------|--------------------|-------------------|----------------------------|----------------|--|
|                             | June 30,           |                   | June 30,                   |                |  |
|                             | 2015               | 2014              | 2015                       | 2014           |  |
| <b>Net Sales:</b>           |                    |                   |                            |                |  |
| Rail Products and Services  | \$ 86,882          | \$ 107,484        | 50.7 %                     | 64.3 %         | (19.2)%                                    |
| Construction Products       | 49,516             | 41,810            | 28.9                       | 25.1           | 18.4                                       |
| Tubular and Energy Services | 35,021             | 17,538            | 20.4                       | 10.5           | 99.7                                       |
| <b>Total net sales</b>      | <b>\$ 171,419</b>  | <b>\$ 166,832</b> | <b>100.0 %</b>             | <b>100.0 %</b> | <b>2.7 %</b>                               |

|                             | Three Months Ended |                  | Gross Profit Percentage |               | Percent Increase/ (Decrease) 2015 vs. 2014 |
|-----------------------------|--------------------|------------------|-------------------------|---------------|--|
|                             | June 30,           |                  | June 30,                |               |  |
|                             | 2015               | 2014             | 2015                    | 2014          |  |
| <b>Gross Profit:</b>        |                    |                  |                         |               |  |
| Rail Products and Services  | \$ 19,711          | \$ 18,527        | 22.7 %                  | 17.2 %        | 6.4 %                                      |
| Construction Products       | 10,295             | 7,693            | 20.8                    | 18.4          | 33.8                                       |
| Tubular and Energy Services | 6,894              | 4,391            | 19.7                    | 25.0          | 57.0                                       |
| LIFO income                 | 406                | 202              | 0.2                     | 0.1           | 101.0                                      |
| Other                       | (217)              | (113)            | (0.1)                   | (0.1)         | 92.0                                       |
| <b>Total gross profit</b>   | <b>\$ 37,089</b>   | <b>\$ 30,700</b> | <b>21.6 %</b>           | <b>18.4 %</b> | <b>20.8 %</b>                              |

|  | Three Months Ended |                  | Percent of Total Net Sales |               | Percent Increase/ (Decrease) 2015 vs. 2014 |
|--|--------------------|------------------|----------------------------|---------------|--|
|  | June 30,           |                  | June 30,                   |               |  |
|  | 2015               | 2014             | 2015                       | 2014          |  |
| <b>Expenses:</b>                                       |                    |                  |                            |               |  |
| Selling and administrative expenses                    | \$ 24,278          | \$ 19,599        | 14.2 %                     | 11.7 %        | 23.9 %                                     |
| Amortization expense                                   | 3,456              | 1,172            | 2.0                        | 0.7           | **   |
| Interest expense                                       | 1,288              | 126              | 0.8                        | 0.1           | **   |
| Interest income  | (37)               | (147)            |                            | (0.1)         | (74.8)                                     |
| Equity in loss (income) of nonconsolidated investments | 186                | (142)            | 0.1                        | (0.1)         | **   |
| Other expense (income)                                 | 95                 | (138)            | 0.1                        | (0.1)         | **   |
| <b>Total expenses</b>                                  | <b>\$ 29,266</b>   | <b>\$ 20,470</b> | <b>17.1 %</b>              | <b>12.3 %</b> | <b>43.0 %</b>                              |
| <b>Income before income taxes</b>                      | <b>\$ 7,823</b>    | <b>\$ 10,230</b> | <b>4.6 %</b>               | <b>6.1 %</b>  | <b>(23.5)%</b>                             |
| Income tax expense                                     | 2,461              | 3,368            | 1.4                        | 2.0           | (26.9)                                     |
| <b>Net income</b>                                      | <b>\$ 5,362</b>    | <b>\$ 6,862</b>  | <b>3.2 %</b>               | <b>4.1 %</b>  | <b>(21.9)%</b>                             |

\*\* Results of calculation are not considered meaningful for presentation purposes.



**Table of Contents****Second Quarter 2015 Compared to Second Quarter 2014 – Company Analysis**

Net sales of \$171,419 for the period ended June 30, 2015 increased by \$4,587, or 2.7%, compared to the prior year quarter. The change was attributable to increases of 99.7% and 18.4%, in Tubular and Energy Services and Construction Products segment sales, respectively. These increases were offset by a decline of 19.2% within the Rail Products and Services segment. During the 2015 period, sales related to acquisitions were \$30,263 which generated 20.1% gross profit margins.

Gross profit margin for the quarter ended June 30, 2015 was 21.6% or 324 basis points higher than the prior year. The increase was principally related to the prior year warranty charge of \$4,608 within the Rail Products and Services segment. Excluding the impact<sup>1</sup> of the prior year charge, the increase related to margin improvements in both the Construction Products and Rail Products and Services segments.

Selling and administrative expenses increased by \$4,679 or 23.9% from the prior year, due principally to costs from acquired businesses, personnel costs, and to a lesser extent acquisition and integration costs.

The Company's effective income tax rate in the 2015 second quarter was 31.5%, compared to 32.9% in the prior year quarter. The decrease in the effective tax rate compared to the prior year quarter was primarily due to a greater recognition of previously unrecognized uncertain state tax positions during the current year quarter.

Net income for the second quarter of 2015 was \$5,362, or \$0.52 per diluted share, compared to net income of \$6,862, or \$0.67 per diluted share, in the prior year quarter.

Throughout the remainder of 2015, the Company anticipates continued short-term uncertainty in certain areas of the energy markets as well as accelerated reductions in sales to Union Pacific Railroad (UPRR) as our concrete tie warranty dispute continues unresolved.

**Results of Operations – Segment Analysis****Rail Products and Services**

|                         | Three Months Ended<br>June 30, |            | (Decrease)<br>Increase | Percent<br>(Decrease)/<br>Increase |
|-------------------------|--------------------------------|------------|------------------------|------------------------------------|
|                         | 2015                           | 2014       | 2015 vs. 2014          | 2015 vs. 2014                      |
| Net Sales               | \$ 86,882                      | \$ 107,484 | \$ (20,602)            | (19.2)%                            |
| Gross Profit            | \$ 19,711                      | \$ 18,527  | \$ 1,184               | 6.4%                               |
| Gross Profit Percentage | 22.7%                          | 17.2%      | 5.5%                   | 32.0%                              |

**Second Quarter 2015 Compared to Second Quarter 2014**

Rail Products and Services segment sales decreased \$20,602 or 19.2% compared to the prior year period. The sales decrease within the Rail Products and Services segment was due to lower volumes across most divisions, reductions in steel pricing, less sales to the UPRR and reduced revenues related to the Honolulu, HI Transit System project as it nears completion.

The Rail Products and Services segment increased its gross profit margin by 545 basis points. The prior year period margins were negatively impacted by a \$4,608 concrete tie warranty charge. Excluding the charge, the 116 basis point increase is attributable to product mix with the friction management business contributing a greater portion of the current period revenues.

During the quarter, the Rail Products and Services segment had a reduction in new orders of 22.9% compared to the prior year period. The declines related primarily to the Rail Distribution and Allegheny Rail Products businesses. Additionally, as a result of the UPRR warranty matter, UPRR has canceled certain purchase orders and new orders from UPRR have declined significantly relative to the prior year.

<sup>1</sup> *All results excluding warranty charges are non-GAAP measures used for management reporting purposes. Management believes that these measures provide useful information to investors because it is a profitability measure used to evaluate earnings performance on a comparable year-over-year basis.*

**Table of Contents****Construction Products**

|                         | Three Months Ended<br>June 30, |           | Increase<br>2015 vs. 2014 | Percent<br>Increase<br>2015 vs. 2014 |
|-------------------------|--------------------------------|-----------|---------------------------|--------------------------------------|
|                         | 2015                           | 2014      |                           |                                      |
| Net Sales               | \$ 49,516                      | \$ 41,810 | \$ 7,706                  | 18.4%                                |
| Gross Profit            | \$ 10,295                      | \$ 7,693  | \$ 2,602                  | 33.8%                                |
| Gross Profit Percentage | 20.8%                          | 18.4%     | 2.4%                      | 13.0%                                |

**Second Quarter 2015 Compared to Second Quarter 2014**

Construction Products segment sales increased \$7,706, or 18.4% compared to the prior year period. The increase relates to a \$7,109 increase in concrete construction product sales as well as an improvement of \$1,105 from Piling Products, partially offset by a reduction of \$508 from Bridge Product sales. Approximately 39.7% of the increase relates to acquired businesses and the remaining portion primarily relates to favorable weather conditions resulting in stronger concrete product shipments compared to the prior year period.

During the quarter, the Construction Products segment had a reduction in new orders of 7.4% compared to the prior year period. The decline primarily relates to the Piling Products business.

The gross profit percentage increased by 239 basis points due to a mix of favorable pricing and plant efficiencies within the Piling Products and concrete construction products business.

**Tubular and Energy Services**

|                         | Three Months Ended<br>June 30, |           | Increase<br>(Decrease)<br>2015 vs. 2014 | Percent<br>Increase/<br>(Decrease)<br>2015 vs. 2014 |
|-------------------------|--------------------------------|-----------|---|---|
|                         | 2015                           | 2014      |   |   |
| Net Sales               | \$ 35,021                      | \$ 17,538 | \$ 17,483                               | 99.7%   |
| Gross Profit            | \$ 6,894                       | \$ 4,391  | \$ 2,503                                | 57.0%   |
| Gross Profit Percentage | 19.7%                          | 25.0%     | (5.3)%                                  | (21.2)%   |

**Second Quarter 2015 Compared to Second Quarter 2014**

Tubular and Energy Services segment sales increased \$17,483, or 99.7% compared to the prior year period. The increase related to revenues from acquired businesses of \$23,147 partially offset by a reduction in sales from the Company's Coated Pipe and Threaded Products businesses. Tubular and Energy Services gross margins reduced by 535 basis points which was primarily driven by a reduction in Coated Pipe margins as well as sales mix largely due to acquired businesses.

The Tubular and Energy Services segment generated an increase in new orders of 224.6% compared to the prior year period. New orders related to the IOS and Chemtec acquisitions represented 56.4% of the second quarter 2015 orders.

**Table of Contents****Year-to-date Results**

|  | Six Months Ended  |                   | Percent of Total Net Sales |                | Percent Increase/ (Decrease) 2015 vs. 2014 |
|--|-------------------|-------------------|----------------------------|----------------|--|
|  | June 30,          |                   | June 30,                   |                |  |
|  | 2015              | 2014              | 2015                       | 2014           |  |
| <b>Net Sales:</b>                                      |                   |                   |                            |                |  |
| Rail Products and Services                             | \$ 164,558        | \$ 180,980        | 53.2 %                     | 65.0 %         | (9.1)%                                     |
| Construction Products                                  | 83,806            | 69,193            | 27.1                       | 24.9           | 21.1                                       |
| Tubular and Energy Services                            | 60,962            | 28,073            | 19.7                       | 10.1           | 117.2                                      |
| <b>Total net sales</b>                                 | <b>\$ 309,326</b> | <b>\$ 278,246</b> | <b>100.0 %</b>             | <b>100.0 %</b> | <b>11.2 %</b>                              |
| <b>Gross Profit:</b>                                   |                   |                   |                            |                |  |
|  | Six Months Ended  |                   | Gross Profit Percentage    |                | Percent Increase/ (Decrease) 2015 vs. 2014 |
|  | June 30,          |                   | June 30,                   |                |  |
|  | 2015              | 2014              | 2015                       | 2014           |  |
| Rail Products and Services                             | \$ 37,854         | \$ 34,957         | 23.0 %                     | 19.3 %         | 8.3 %                                      |
| Construction Products                                  | 16,857            | 13,405            | 20.1                       | 19.4           | 25.8                                       |
| Tubular and Energy Services                            | 12,928            | 6,521             | 21.2                       | 23.2           | 98.3                                       |
| LIFO income  | 400               | 198               | 0.1                        | 0.1            | 102.0                                      |
| Other  | (296)             | (254)             | (0.1)                      | (0.1)          | 16.5                                       |
| <b>Total gross profit</b>                              | <b>\$ 67,743</b>  | <b>\$ 54,827</b>  | <b>21.9 %</b>              | <b>19.7 %</b>  | <b>23.6 %</b>                              |
| <b>Expenses:</b>                                       |                   |                   |                            |                |  |
|  | Six Months Ended  |                   | Percent of Total Net Sales |                | Percent Increase/ (Decrease) 2015 vs. 2014 |
|  | June 30,          |                   | June 30,                   |                |  |
|  | 2015              | 2014              | 2015                       | 2014           |  |
| Selling and administrative expenses                    | \$ 46,528         | \$ 37,624         | 15.0 %                     | 13.5 %         | 23.7 %                                     |
| Amortization expense                                   | 5,613             | 2,313             | 1.8                        | 0.8            | **   |
| Interest expense                                       | 1,901             | 249               | 0.6                        | 0.1            | **   |
| Interest income  | (94)              | (291)             |                            | (0.1)          | (67.7)                                     |
| Equity in loss (income) of nonconsolidated investments | 13                | (346)             |                            | (0.1)          | (103.8)                                    |
| Other income   | (708)             | (273)             | (0.2)                      | (0.1)          | **   |
| <b>Total expenses</b>                                  | <b>\$ 53,253</b>  | <b>\$ 39,276</b>  | <b>17.2 %</b>              | <b>14.1 %</b>  | <b>35.6 %</b>                              |
| <b>Income before income taxes</b>                      | <b>\$ 14,490</b>  | <b>\$ 15,551</b>  | <b>4.7 %</b>               | <b>5.6 %</b>   | <b>(6.8)%</b>                              |
| <b>Income tax expense</b>                              | <b>4,841</b>      | <b>5,040</b>      | <b>1.6</b>                 | <b>1.8</b>     | <b>(3.9)</b>                               |
| <b>Net income</b>                                      | <b>\$ 9,649</b>   | <b>\$ 10,511</b>  | <b>3.1 %</b>               | <b>3.8 %</b>   | <b>(8.2)%</b>                              |

\*\* Results of calculation are not considered meaningful for presentation purposes.





**Table of Contents****First Six Months of 2015 Compared to First Six Months of 2014 – Company Analysis**

Net sales of \$309,326 for the six months ended June 30, 2015 increased by \$31,080, or 11.2% compared to the prior year period. Included within the June 30, 2015 sales are acquisition related revenues of \$50,259 which generated 21.2% margins. The sales increase was attributable to increases of 117.2% and 21.1% in Tubular and Energy Services and Construction Products segment sales, respectively, which were partially offset by a decrease of 9.1% in Rail Products and Services segment sales

Gross profit margin for the six months ended June 30, 2015 was 21.9%, or 220 basis points higher than the prior year. The 2014 margin was diluted due to a second quarter 2014 warranty charge of \$4,608 within the Rail Products and Services segment. Excluding the impact of the charge, the increase was due to improvements within the Rail and Construction segments.

Selling and administrative expenses increased by \$8,904, or 23.7%, over the prior year period. The cost increases for the six months ended June 30, 2015 were primarily attributable to costs from acquired businesses, personnel related costs, acquisition and integration costs, as well as increases in travel and entertainment costs.

The Company's effective income tax rate from continuing operations for the first six months of 2015 was 33.4%, compared to 32.4% in the prior year period. The Company's effective income tax rate for the six months ended June 30, 2015 differed from the federal statutory rate of 35% primarily due to state income taxes, U.S. domestic production activities deductions, operations in foreign jurisdictions with lower statutory tax rates, and the recognition of previously unrecognized uncertain state tax benefits. The increase in the effective tax rate compared to the prior year period was due to an unfavorable global mix of income as well as the recognition of uncertain state tax benefits.

Net income for the first six months of 2015 was \$9,649, or \$0.93 per diluted share, which compares to net income for the 2014 period of \$10,511, or \$1.02 per diluted share.

**Results of Continuing Operations – Segment Analysis****Rail Products and Services**

|                         | Six Months Ended<br>June 30, |            | (Decrease)<br>Increase | Percent<br>(Decrease)/Increase |
|-------------------------|------------------------------|------------|------------------------|--------------------------------|
|                         | 2015                         | 2014       | 2015 vs. 2014          | 2015 vs. 2014                  |
| Net Sales               | \$ 164,558                   | \$ 180,980 | \$ (16,422)            | (9.1)%                         |
| Gross Profit            | \$ 37,854                    | \$ 34,957  | \$ 2,897               | 8.3 %                          |
| Gross Profit Percentage | 23.0 %                       | 19.3 %     | 3.7 %                  | 19.2 %                         |

**First Six Months of 2015 Compared to First Six Months of 2014**

Rail Products and Services segment sales decreased \$16,422, or 9.1%, compared to the prior year period. For the first six months of 2015, excluding marginal increases within the concrete rail business, all rail divisions experienced reductions in sales over the prior year period. The sales decline was attributable to lower volumes from various track component businesses, reductions in the price of steel, less sales to UPRR, and a reduction in sales for the Honolulu, HI Transit System project as it nears completion.

During the six-month period ended June 30, 2015, the Rail Products and Services segment had a reduction in new orders of 14.5% compared to the prior year period. UPRR has canceled certain purchase orders and new orders from UPRR have declined significantly relative to the prior year. As a result, the Company is making adjustments to remove UPRR sales from our forecasts.

The Rail Products and Services segment increased its gross profit margin by 369 basis points. The increase over prior year principally related to the prior year concrete tie warranty charge of \$4,608, as further described in Note 13. Excluding this charge, the increase of 114 basis points was principally due to a shift in product mix from distribution products to friction management products primarily sold by the Rail Technologies division.



**Table of Contents****Construction Products**

|                         | Six Months Ended<br>June 30, |           | Increase<br>2015 vs. 2014 | Percent<br>Increase<br>2015 vs. 2014 |
|-------------------------|------------------------------|-----------|---------------------------|--------------------------------------|
|                         | 2015                         | 2014      |                           |                                      |
| Net Sales               | \$ 83,806                    | \$ 69,193 | \$ 14,613                 | 21.1 %                               |
| Gross Profit            | \$ 16,857                    | \$ 13,405 | \$ 3,452                  | 25.8 %                               |
| Gross Profit Percentage | 20.1 %                       | 19.4 %    | 0.7 %                     | 3.6 %                                |

**First Six Months of 2015 Compared to First Six Months of 2014**

Construction Products segment sales increased \$14,613, or 21.1%, compared to the prior year period. The increase relates to a 91.8% increase in concrete construction product sales, of which 65.1% related to acquired revenues, along with an 8.6% increase in Piling Product sales. Partially offsetting the increase was a decline in Fabricated Bridge Product sales which was coming off of a record 2014 sales year.

During the six-month period ended June 30, 2015, the Construction Products segment had a reduction in new orders of 20.0% compared to the prior year period. The decline related primarily to the Piling Products business.

The gross profit percentage increased by 74 basis points due to gross margin improvements in all the Construction Products businesses excluding Fabricated Bridge Products. The improvement was primarily driven by volume related efficiencies.

**Tubular and Energy Services**

|                         | Six Months Ended<br>June 30, |           | Increase /<br>(Decrease)<br>2015 vs. 2014 | Percent<br>Increase/<br>(Decrease)<br>2015 vs. 2014 |
|-------------------------|------------------------------|-----------|---|---|
|                         | 2015                         | 2014      |   |   |
| Net Sales               | \$ 60,962                    | \$ 28,073 | \$ 32,889                                 | 117.2 %   |
| Gross Profit            | \$ 12,928                    | \$ 6,521  | \$ 6,407                                  | 98.3 %  |
| Gross Profit Percentage | 21.2 %                       | 23.2 %    | (2.0)%                                    | (8.6)%  |

**First Six Months of 2015 Compared to First Six Months of 2014**

Tubular and Energy Services segment sales increased \$32,889, or 117.2%, compared to the prior year period. The increase relates to revenues from acquired businesses of \$38,157, which were partially offset by reductions of \$5,268 within the Coated and Threaded businesses. Tubular and Energy Services gross margins declined by 202 basis points due to the mix of products and services provided.

The Tubular and Energy Services segment generated an increase in new orders of 115.2% compared to the prior year period. New order related to acquisitions represented 55.4% of orders through June 30, 2015.

**Table of Contents****Other****Segment Backlog**

Total Company backlog at June 30, 2015 was approximately \$207,765 and is summarized by business segment in the following table for the periods indicated:

|                             | June 30,<br>2015 | Backlog<br>December 31,<br>2014 | June 30,<br>2014 |
|-----------------------------|------------------|---------------------------------|------------------|
| Rail Products and Services  | \$ 113,729       | \$ 104,821                      | \$ 140,377       |
| Construction Products       | 72,759           | 65,843                          | 96,276           |
| Tubular and Energy Services | 21,277           | 13,686                          | 11,145           |
| Total Backlog               | \$ 207,765       | \$ 184,350                      | \$ 247,798       |

Backlog from acquired businesses represents 10.9% of the Company's total unfilled customer orders. While a considerable portion of the business is backlog driven, the recent acquisition of IOS is not driven by backlog and therefore has very insignificant levels throughout the year.

**Warranty**

As of June 30, 2015, the Company maintained a total product warranty reserve of approximately \$9,050 for its estimate of all potential product warranty claims. Of this total, \$7,756 reflects the current estimate of the Company's exposure for potential product warranty claims related to concrete tie production. While the Company believes this is a reasonable estimate of its potential contingencies related to identified concrete tie warranty matters, the Company may incur future charges associated with new customer claims or further development of information for existing customer claims. Thus, there can be no assurance that future potential costs pertaining to warranty claims will not have a material impact on the Company's results of operations and financial condition. See Note 13 of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for additional information.

**Table of Contents****Liquidity and Capital Resources**

Total debt was \$218,472 and \$26,428 as of June 30, 2015 and December 31, 2014, respectively.

Our need for liquidity relates primarily to seasonal working capital requirements for operations, capital expenditures, joint venture capital obligations, strategic investments or acquisitions, debt service obligations, share repurchases, and dividends.

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

|  | 2015               | June 30,<br>2014 |
|--|--------------------|------------------|
| <b>Liquidity needs:</b>                              |                    |                  |
| Working capital and other assets and liabilities     | \$ (25,292)        | \$ 13,886        |
| Capital expenditures                                 | (8,246)            | (7,682)          |
| Capital contributions to equity method investments   | (61)               |                  |
| Other long-term debt repayments                      | (62,247)           | (54)             |
| Financing costs paid                                 | (1,670)            |                  |
| Treasury stock acquisitions                          | (962)              | (918)            |
| Dividends paid to common shareholders                | (831)              | (620)            |
| Acquisitions, net of cash acquired                   | (193,871)          | (495)            |
| Cash interest paid                                   | (1,471)            | (177)            |
| <b>Net liquidity needs</b>                           | <b>(294,651)</b>   | <b>3,940</b>     |
| <b>Liquidity sources:</b>                            |                    |                  |
| Internally generated cash flows before interest paid | 24,739             | 17,439           |
| Dividends from LB Pipe & Coupling Products, LLC      | 90                 | 540              |
| Proceeds from asset sales                            | 163                | 184              |
| Equity transactions                                  | 378                | 414              |
| Other long-term debt proceeds                        | 254,291            | 316              |
| Foreign exchange effects                             | (1,473)            | 99               |
| <b>Net liquidity sources</b>                         | <b>278,188</b>     | <b>18,992</b>    |
| <b>Net Change in Cash</b>                            | <b>\$ (16,463)</b> | <b>\$ 22,932</b> |

**Cash Flow from Operating Activities**

During the current 2015 period, cash flows from operating activities used \$1,934, a decrease of \$33,622, compared to the 2014 period. For the six months ended June 30, 2015, income, adjustments to income from operating activities, and dividends from the LB Pipe joint venture provided \$23,358 compared to \$17,802 in the 2014 period. Working capital and other assets and liabilities used \$25,292 in the current period compared to providing \$13,886 in the prior year period. The reduction in cash flows from operations was largely impacted by the timing of working capital movement. As of December 31, 2014, the Company maintained a significant amount of accounts payable due to capital spending as well as favorable pricing on core product.

The Company's calculation for days sales outstanding at June 30, 2015 was 51 days compared to 50 days at December 31, 2014 and we believe our receivable portfolio is strong.

**Cash Flow from Investing Activities**

The primary investing activity during the six months of 2015 related to the acquisitions of Tew and IOS. The total purchase price net of cash acquired was \$193,871. During the six-month period ended June 30, 2014, the Company made a post closing working capital payment of \$495 related to the 2013 acquisition of Ball Winch. Other investing activities included capital expenditures of \$8,246 for the first six months of 2015

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compared to \$7,682 for the same 2014 period. Current period expenditures related primarily to the finalization of the Birmingham, AL coated products facility upgrade, application development of a new enterprise resource planning system, and general plant and yard improvements across each segment. During the prior year, capital expenditures related to improvements to our Birmingham, AL coated products facility, equipment costs to expand into adjacent markets within our bridge products and Ball Winch coated products businesses, and general plant and yard improvements. We anticipate total capital spending in 2015 will range between \$15,000 and \$17,000.

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### **Cash Flow from Financing Activities**

During the six months ended June 30, 2015, the Company had an increase in outstanding debt of \$192,044 primarily related to drawings against the revolving credit facility to fund domestic acquisition activity. During the periods ended June 30, 2015 and 2014, we did not purchase any common shares of the Company under our existing share repurchase authorization. However, we withheld 19,820 and 20,301 shares for approximately \$962 and \$918 for the periods ended June 30, 2015 and 2014, respectively. These amounts were withheld from employees to pay their withholding taxes in connection with the exercise and/or vesting of options and restricted stock awards. Cash outflows related to dividends were \$831 and \$620 for the periods ended June 30, 2015 and 2014, respectively.

### **Financial Condition**

As of June 30, 2015, we had \$35,561 in cash and cash equivalents and a domestic credit facility with \$120,283 of availability while carrying \$218,472 in total debt. We believe this liquidity will provide the flexibility to take advantage of both organic and external investment opportunities.

Our priority continues to be short-term maturities and the preservation of our principal balances. Approximately \$26,620 of our cash and cash equivalents was held in non-domestic bank accounts, and is not available to fund domestic operations unless repatriated. It is management's intent to indefinitely reinvest such funds outside of the United States.

Borrowings under the March 13, 2015 Amended Credit Agreement will bear interest at rates based upon either the base rate or Euro-rate plus applicable margins. Applicable margins are dictated by the ratio of the Company's indebtedness less consolidated cash on hand to the Company's consolidated EBITDA, as defined in the underlying Amended Credit Agreement. The base rate is the highest of (a) PNC Bank's prime rate, (b) the Federal Funds Rate plus 0.50% or (c) the daily Euro-rate (as defined in the Amended Credit Agreement) plus 1.00%. The base rate and Euro-rate spreads range from 0.00% to 1.50% and 1.00% to 2.50%, respectively.

The Amended Credit Agreement includes two financial covenants: (a) Leverage Ratio, defined as the Company's Indebtedness less cash on hand, in excess of \$15,000, divided by the Company's consolidated EBITDA, which must not exceed 3.25 to 1.00 and (b) Minimum Interest Coverage, defined as consolidated EBITDA less Capital Expenditures divided by consolidated interest expense, which must be no less than 3.00 to 1.00.

As of June 30, 2015, the Company was in compliance with the Amended Credit Agreement's covenants. The agreement matures on March 13, 2020.

The Amended Credit Agreement permits the Company to pay dividends, distributions, and make redemptions with respect to its stock provided no event of default or potential default (as defined in the Amended Credit Agreement) has occurred prior to or after giving effect to the dividend, distribution, or redemption. Dividends, distributions, and redemptions are capped at \$25,000 per year when funds are drawn on the facility. If no drawings on the facility exist, dividends, distributions, and redemptions in excess of \$25,000 per year are subjected to a limitation of \$75,000 in the aggregate over the life of the facility. The \$75,000 aggregate limitation also permits certain loans, investments, and acquisitions.

Other restrictions exist at all times including, but not limited to, limitation of the Company's sale of assets, other indebtedness incurred by either the borrowers or the non-borrower subsidiaries of the Company, guarantees, and liens.

### **Critical Accounting Policies**

The Condensed 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 the financial statements giving due regard to materiality. There have been no material changes in the Company's critical accounting policies or estimates since December 31, 2014. A summary of the Company's critical accounting policies and estimates is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.



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### **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, 2014 is included in the "Liquidity and Capital Resources" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. These arrangements provide the Company with increased flexibility relative to the utilization and investment of cash resources. Excluding the drawings against the revolving credit facility for the acquisition of IOS, there were no material changes to these arrangements during the six-month period ended June 30, 2015.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Risk**

The Company does not purchase or hold any derivative financial instruments for trading purposes.

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 within other income as the underlying hedged items affect earnings. To the extent that a change in a derivative does not perfectly offset the change in value of the interest rate being hedged, the ineffective portion is recognized in earnings immediately.

#### **Foreign Currency Exchange Rate Risk**

The Company is subject to exposures to changes in foreign currency exchange rates. The Company manages 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. The Company did not engage in foreign currency hedging transactions during the three-month period ended June 30, 2015.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

L.B. Foster 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) as of June 30, 2015. 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 Securities and Exchange Commission filings.

#### **Changes in Internal Control Over Financial Reporting**

During the six months ended June 30, 2015, the Company completed the acquisitions of IOS and Tew. The Company also acquired Chemtec and FWO during the fourth quarter of 2014. We are in the process of integrating these businesses. We are analyzing, evaluating and, where necessary, implementing changes in controls and procedures relating to IOS, Tew, Chemtec, and FWO as the integration proceeds. As such, this process may result in additions or changes to our internal control over financial reporting. Otherwise, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION**

(Dollars in thousands, except share data)

**Item 1. Legal Proceedings**

See Note 13, Commitments and Contingent Liabilities, to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

**Item 1A. Risk Factors**

In addition to the risk factors and other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 3, 2015, as well as our quarterly reports filed thereafter, which could materially affect our business, financial condition, financial results, or future performance. The risks described in our Annual Report on Form 10-K and quarterly reports on Form 10-Q are not the only risks facing the Company. Additional risks and uncertainties not currently known or that we currently deem to be immaterial may also materially affect our business, financial condition, and/or results of operations.

**We are dependent upon key customers.**

We could be adversely affected by changes in the business or financial condition of a customer or customers. A significant decrease in capital spending by our railroad customers could negatively impact our product revenue. Our CXT concrete rail products division and Allegheny Rail Products division are dependent on Union Pacific Railroad (UPRR) for a significant portion of their business. As a result of ongoing litigation and termination of the amended 2005 supply agreement with UPRR, our sales and new orders with UPRR have declined and will continue to decrease or be eliminated in the future. No assurances can be given that a significant downturn in the business or financial condition of a customer, or customers, would not impact our results of operations and/or financial condition.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

The Company's purchases of equity securities for the three-month period ended June 30, 2015 were as follows:

|                                | Total<br>number<br>of shares<br>purchased (1) | Average<br>price<br>paid<br>per<br>share | Total<br>number<br>of shares<br>purchased<br>as<br>part of<br>publicly<br>announced plans<br>or programs<br>(2) | Approximate<br>dollar<br>value of shares<br>that may yet be<br>purchased under<br>the plans or programs<br>(in thousands) |
|--------------------------------|---|--|---|---|
| April 1, 2015 - April 30, 2015 |   | \$                                       |   | \$ 15,000   |
| May 1, 2015 - May 31, 2015     |   |  |   | 15,000  |
| June 1, 2015 - June 30, 2015   |   |  |   | 15,000  |
| Total                          |   | \$                                       |   | \$ 15,000   |

(1) Reflects shares withheld by the Company to pay taxes upon vesting of restricted stock.

(2) On December 4, 2013, the Board of Directors authorized the repurchase of up to \$15,000 of the Company's common shares until December 31, 2016. This authorization became effective January 1, 2014.

We did not purchase any common shares of the Company during the three month period ended June 30, 2015 under our existing share repurchase authorization. During the six months ended June 30, 2015, we withheld 19,820 shares for approximately \$962 from employees to pay their withholding taxes in connection with the exercise and/or vesting of options and restricted stock awards.

**Item 4. Mine Safety Disclosures**

This item is not applicable to the Company.

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**Item 6. Exhibits**

All exhibits are incorporated herein by reference:

- \*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.
- \*101.INS XBRL Instance Document.
- \*101.SCH XBRL Taxonomy Extension Schema Document.
- \*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- \*101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- \*101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- \*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

\* Exhibits marked with an asterisk are filed herewith.

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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 4, 2015

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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**Table of Contents**

**Index to Exhibits**

All exhibits are incorporated herein by reference:

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|----------------|---|
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| *32.0          | Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101.INS       | XBRL Instance Document.   |
| *101.SCH       | XBRL Taxonomy Extension Schema Document.  |
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| *101.LAB       | XBRL Taxonomy Extension Label Linkbase Document.  |
| *101.PRE       | XBRL Taxonomy Extension Presentation Linkbase Document.   |

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