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Form 10-Q
November 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark One)

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

for the quarterly period ended September 30, 2018
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: 000-10436

L.B. Foster Company
(Exact name of Registrant as specified in its charter)

Pennsylvania	25-1324733
(State of Incorporation)	(I. R. S. Employer Identification No.)

415 Holiday Drive, Pittsburgh, Pennsylvania	**15220**
(Address of principal executive offices)	**(Zip Code)**

(412) 928-3400
(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 x No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No

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

Large accelerated filer	Accelerated filer x
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	**Outstanding as of October 31, 2018**
Common Stock, Par Value $0.01	10,562,832 Shares

L.B. FOSTER COMPANY AND SUBSIDIARIES
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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2018 (Unaudited)		December 31, 2017	
ASSETS				
Current assets:				
Cash and cash equivalents	$	9,586	$	37,678
Accounts receivable - net	85,615		76,582	
Inventories - net	107,200		97,543	
Prepaid income tax	725		188	
Other current assets	7,402		9,120	
Total current assets	210,528		221,111	
Property, plant, and equipment - net	87,894		96,096	
Other assets:				
Goodwill	19,449		19,785	
Other intangibles - net	51,801		57,440	
Investments	155		162	
Other assets	719		1,962	
TOTAL ASSETS	$	370,546	$	396,556
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	72,355	$	52,404
Deferred revenue	12,384		10,136	
Accrued payroll and employee benefits	11,052		11,888	
Accrued warranty	9,363		8,682	
Current maturities of long-term debt	630		656	
Other accrued liabilities	9,157		9,764	
Total current liabilities	114,941		93,530	
Long-term debt	75,840		129,310	
Deferred tax liabilities	7,864		9,744	

Other long-term liabilities	16,813		17,493	
Stockholders' equity:				
Common stock, par value $0.01, authorized 20,000,000 shares; shares issued at September 30, 2018 and December 31, 2017, 11,115,779; shares outstanding at September 30, 2018 and December 31, 2017, 10,366,007 and 10,340,576, respectively	111		111	
Paid-in capital	47,042		45,017	
Retained earnings	145,364		137,780	
Treasury stock - at cost, 749,772 and 775,203 common stock shares at September 30, 2018 and December 31, 2017, respectively	(18,165)		(18,662)	
Accumulated other comprehensive loss	(19,264)		(17,767)	
Total stockholders' equity	155,088		146,479	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	370,546	$	396,556

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 per share data)

	Three Months Ended September 30,						Nine Months Ended September 30,	
	2018		2017		2018		2017	
	(Unaudited)						(Unaudited)	
Sales of goods	$	120,272	$	103,058	$	339,176	$	318,414
Sales of services	46,822		28,434		123,262		76,640	
Total net sales	167,094		131,492		462,438		395,054	
Cost of goods sold	100,746		82,460		281,892		256,152	
Cost of services sold	36,746		22,667		96,402		63,549	
Total cost of sales	137,492		105,127		378,294		319,701	
Gross profit	29,602		26,365		84,144		75,353	
Selling and administrative expenses	21,662		20,218		65,488		60,023	
Amortization expense	1,762		1,764		5,322		5,218	
Interest expense	1,367		2,026		4,979		6,315	
Interest income	(71)		(56)		(166)		(166)	
Equity in loss (income) of nonconsolidated investments	4		(50)		7		5	
Other expense (income)	153		(551)		(327)		(564)	
Total expenses	24,877		23,351		75,303		70,831	
Income before income taxes	4,725		3,014		8,841		4,522	
Income tax (benefit) expense	(246)		(208)		952		698	
Net income	$	4,971	$	3,222	$	7,889	$	3,824
Basic earnings per common share	$	0.48	$	0.31	$	0.76	$	0.37
Diluted earnings per common share	$	0.47	$	0.31	$	0.75	$	0.37

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Net income	$ 4,971	$ 3,222	$ 7,889	$ 3,824
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	(371)	2,412	(3,132)	5,528
Unrealized gain (loss) on cash flow hedges, net of tax expense of $0 for all periods	207	82	1,243	(119)
Reclassification of pension liability adjustments to earnings, net of tax expense of $0 for all periods*	137	114	392	335
Other comprehensive (loss) income	(27)	2,608	(1,497)	5,744
Comprehensive income	$ 4,944	$ 5,830	$ 6,392	$ 9,568

* Reclassifications out of accumulated other comprehensive loss for pension obligations are charged to selling and administrative expenses.

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)

	Nine Months Ended September 30, 2018	2017
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,889	$ 3,824
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Deferred income taxes	(1,796)	(648)
Depreciation	8,685	9,705
Amortization	5,322	5,218
Equity in loss of nonconsolidated investments	7	5
Loss (gain) on sales and disposals of property, plant, and equipment	498	(347)
Stock-based compensation	2,838	1,228
Change in operating assets and liabilities:		
Accounts receivable	(10,634)	(11,899)
Inventories	(10,546)	(19,336)
Other current assets	(1,160)	(786)
Prepaid income tax	(3,025)	12,569
Other noncurrent assets	1,132	719
Accounts payable	19,604	22,017

Deferred revenue	2,278	3,339
Accrued payroll and employee benefits	(778)	2,734
Other current liabilities	2,287	(763)
Other long-term liabilities	(176)	(63)
Net cash provided by operating activities	22,425	27,516
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of property, plant, and equipment	2,267	1,388
Capital expenditures on property, plant, and equipment	(3,196)	(5,335)
Proceeds from sale of equity method investment	3,875	—
Repayment of revolving line of credit from equity method investment	1,235	—
Net cash provided by (used in) investing activities	4,181	(3,947)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of debt	(153,089)	(113,119)
Proceeds from debt	99,592	91,838
Treasury stock acquisitions	(316)	(103)

Net cash used in financing activities	(53,813)		(21,384)	
Effect of exchange rate changes on cash and cash equivalents	(885)		2,460	
Net (decrease) increase in cash and cash equivalents	(28,092)		4,645	
Cash and cash equivalents at beginning of period	37,678		30,363	
Cash and cash equivalents at end of period	$	9,586	$	35,008
Supplemental disclosure of cash flow information:				
Interest paid	$	4,468	$	5,599
Income taxes paid (received)	$	4,077	$	(11,233)

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)
(In thousands, except share data)

1. FINANCIAL STATEMENTS

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") 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 GAAP for complete financial statements. In the opinion of management, all estimates and adjustments (consisting of normal recurring accruals, unless otherwise stated herein) considered necessary for a fair presentation of the financial position of L.B. Foster Company and subsidiaries as of September 30, 2018 and December 31, 2017, its condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017, and its statements of cash flows for the nine months ended September 30, 2018 and 2017, 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, 2018. The Condensed Consolidated Balance Sheet as of December 31, 2017 was derived from audited financial statements. 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, 2017. In this Quarterly Report on Form 10-Q, references to "we," "us," "our," and the "Company" refer collectively to L.B. Foster Company and its consolidated subsidiaries.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The new accounting requirements include the accounting for, presentation of, and classification of leases. The guidance will result in most leases being capitalized as a right-of-use asset with a related balance sheet liability. The requirements of the new standard are effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods. The Company is in the process of analyzing the impact of ASU 2016-02 on our financial position. The Company has a significant number of operating leases, and, as a result, expects this guidance to have a material impact on its Condensed Consolidated Balance Sheet. The change will not affect the covenants of the Amended and Restated Credit Agreement dated March 13, 2015 and as amended by the Second Amendment dated November 7, 2016 as defined in Note 9. Long-Term Debt of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q. The Company has gathered the agreements covered by ASU 2016-02 and will continue to evaluate the impact that ASU 2016-02 will have on its financial statements, related disclosures, and internal controls. Regular updates are provided to the Audit Committee regarding the progress and milestones of the adoption. The Company does not anticipate early adoption of ASU 2016-02.

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income" ("ASU 2018-02"), that will permit companies the option to reclassify stranded tax effects caused by the newly-enacted US Tax Cuts and Jobs Act (the "Tax Act") from accumulated other comprehensive income to retained earnings. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. Adoption of the ASU will be optional and a company will need to disclose if it elects not to adopt the ASU. The ASU will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption will be permitted, including adoption in any interim period, for financial statements that have not yet been issued or made available for issuance. Entities will have the option to apply the amendments retrospectively or to record the reclassification as of the beginning of the period of adoption. The Company is evaluating the impact of ASU 2018-02 on its financial position and whether or not it will choose to adopt the ASU.

The SEC Disclosure Update and Simplification release (“DUSTR”) adopted certain amendments in August 2018. While most of the amendments eliminate outdated or duplicative disclosure requirements, the final rule amends the interim financial statement requirements to require a reconciliation of changes in stockholders’ equity in the notes to the financial statements or as a separate statement. This analysis should reconcile the beginning balance to the ending balance of each caption in stockholders’ equity for each period for which an income statement is required to be filed and comply with the remaining content requirements of Rule 3-04 of Regulation S-X. As a result, registrants will be required to provide the reconciliation for both the comparable quarterly and year-to-date periods in its Quarterly Report on Form 10-Q but only for the year-to-date periods in registration statements, beginning in the first quarter of 2019.

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Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605, “Revenue Recognition” (“ASC 605”). 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, 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 adopted the provisions of ASU 2014-09 on January 1, 2018, using the modified retrospective approach. Revenue from the Company's product and service sales continue to be recognized when products are shipped or services are rendered. Revenue from the Company's product and service sales provided under long-term agreements is recognized as the Company transfers control of the product or renders service to its customers, which approximates the previously used percentage-of-completion method of accounting. The adoption of ASU 2014-09 had no material effect on the Company's financial position, results of operations, cash flows, or backlog, and no adjustment to January 1, 2018 opening retained earnings was needed. The Company has presented the disclosures required by ASC 606, “Revenue from Contracts with Customers” (“ASC 606”) in Note 3. Revenue of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes – Intra-Entity Transfers of Assets Other Than Inventory (Topic 740),” (“ASU 2016-16”) which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The ASU was effective on January 1, 2018 and was adopted by the Company on that date, using the modified retrospective approach. Under this approach, the Company recorded a reduction to its January 1, 2018 opening retained earnings of $305 as a result of prior intra-entity transactions.

In March 2018, the FASB issued ASU 2018-05, “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118,” which allowed SEC registrants to record provisional amounts in earnings for the year ended December 31, 2017 due to the complexities involved in accounting for the enactment of the Tax Act enacted on December 22, 2017. The Company recognized estimated income tax effects of the Tax Act in its 2017 Consolidated Financial Statements in accordance with SEC Staff Accounting Bulletin No. 118 (“SAB No. 118”). Refer to Note 15. Income Taxes of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for further information regarding the provisional amounts recorded by the Company as of December 31, 2017 through September 30, 2018.

In March 2017, the FASB issued ASU 2017-07, “Compensation - Retirement Benefits (Topic 715)” (“ASU 2017-07”), which improves the presentation of net periodic pension cost and net periodic postretirement benefit cost. The guidance requires that the entity report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and report the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement separately from the service cost component and not within income from operations. Of the components of net periodic benefit cost, only the service cost component will be eligible for asset capitalization. The new standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The adoption of ASU 2017-07 had no impact to the Company.

Reclassifications and Disclosures

Certain amounts in previously issued financial statements have been reclassified to conform to the current period presentation. These reclassifications represent the change in allocated corporate expenses as disclosed in Note 2. Business Segments and the adoption of ASC 606 disclosed in Note 3. Revenue, Note 5. Accounts Receivable, and Note 6. Inventories of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report

on Form 10-Q.
2. BUSINESS SEGMENTS
The Company is a leading manufacturer and distributor of products and services for transportation and energy infrastructure with locations in North America and Europe. The Company is organized and operates in three different operating segments: the Rail Products and Services segment, the Construction Products segment, and the Tubular and Energy Services segment. The segments represent components of the Company (a) that engage in activities from which revenue is generated and expenses are incurred; (b) whose operating results are regularly reviewed by the Chief Operating Decision Maker ("CODM"), who makes decisions about resources to be allocated to the segments, and (c) for which discrete financial information is available. Operating segments are evaluated on their segment profit contribution to the Company's consolidated results. Other income and expenses, interest, income taxes, and certain other items are managed on a consolidated basis. The Company's segment accounting policies, unless otherwise noted, are the same as those described in the Note 2. Business Segments of the Notes to

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the Company's Consolidated Financial Statements contained in its Annual Report on Form 10-K for the year-ended December 31, 2017.

The following table illustrates the Company's revenues and profit from operations by segment for the periods indicated:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Net Sales	Segment Profit	Net Sales	Segment Profit
Rail Products and Services	$ 84,517	$ 5,299	$ 62,095	$ 3,179
Construction Products	41,534	1,603	39,118	3,846
Tubular and Energy Services	41,043	4,274	30,279	2,093
Total	$ 167,094	$ 11,176	$ 131,492	$ 9,118
	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Net Sales	Segment Profit	Net Sales	Segment Profit
Rail Products and Services	$ 238,571	$ 12,655	$ 187,922	$ 7,581
Construction Products	112,641	4,478	121,905	10,617
Tubular and Energy Services	111,226	10,704	85,227	1,287
Total	$ 462,438	$ 27,837	$ 395,054	$ 19,485

Segment profit from operations, as shown above, includes allocated corporate operating expenses. Prior to January 1, 2018, the allocation of corporate operating expenses reflected a cost of capital for the assets used in each segment at a rate of generally 1% per month. In 2018, operating expenses related to corporate headquarter functions that directly support the segment activity are allocated based on segment headcount, revenue contribution, or activity of the business units within the segments, based on the corporate activity type provided to the segment. The expense allocation excludes certain corporate costs that are separately managed from the segments. The prior year periods have been updated to reflect the change in allocating corporate operating expenses.

Management believes the current allocation of corporate operating expenses provides a more accurate presentation of how the segments utilize corporate support activities as compared to the cost of capital method previously used. This provides the CODM more meaningful segment profitability reporting to support operating decisions and the allocation of resources.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Profit for reportable	$ 11,176	$ 9,118	$ 27,837	$ 19,485

segments				
Interest expense	(1,367)	(2,026)	(4,979)	(6,315)
Interest income	71	56	166	166
Other (expense) income	(153)	551	327	564
LIFO expense	(1,701)	(1,552)	(2,414)	(1,733)
Equity in (loss) income of nonconsolidated investments	(4)	50	(7)	(5)
Unallocated corporate expenses and other unallocated charges	(3,297)	(3,183)	(12,089)	(7,640)
Income before income taxes	$ 4,725	$ 3,014	$ 8,841	$ 4,522

The following table illustrates assets of the Company by segment:

	September 30, 2018	December 31, 2017
Rail Products and Services	$ 171,183	$ 192,038
Construction Products	92,996	83,154
Tubular and Energy Services	90,984	100,706
Unallocated corporate assets	15,383	20,658
Total	$ 370,546	$ 396,556

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3. REVENUE

On January 1, 2018, the Company adopted ASU 2014-09, and all the related amendments using the modified retrospective approach, which did not result in any changes to the previously reported financial information. The updates related to ASU 2014-09 were applied only to contracts that were not complete as of January 1, 2018.

The Company’s revenues are comprised of product and service sales, including products and services provided under long-term agreements with its customers. All revenue is recognized when the Company satisfies its performance obligations under the contract, either implicit or explicit, by transferring the promised product or rendering a service to its customer either when or as its customer obtains control of the product or the service is rendered. A performance obligation is a promise in a contract to transfer a distinct product or render a service to a customer. A contract’s transaction price is allocated to each distinct performance obligation. The majority of the Company’s contracts have a single performance obligation, as the promise to transfer products or render services is not separately identifiable from other promises in the contract and, therefore, not distinct. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or providing services. Revenue is recorded net of returns, allowances, customer discounts, and incentives. Sales, value added, and other taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis. Shipping and handling costs are included in cost of goods sold.

The Company’s performance obligations under long-term agreements with its customers are generally satisfied as over time. Over time revenue is primarily comprised of transit infrastructure projects within Rail Products and Rail Technologies, long-term bridge projects within Piling and Fabricated Bridge, precast concrete buildings within Precast Concrete Products, and custom precision metering systems within Protective Coatings and Measurement Solutions. Revenue from products or services provided to customers over time accounted for 26.8% and 24.0% of revenue for the three months ended September 30, 2018 and 2017, respectively, and 25.2% and 23.3% of revenue for the nine months ended September 30, 2018 and 2017, respectively. Revenue under these long-term agreements is generally recognized over time either using an input measure based upon the proportion of actual costs incurred to estimated total project costs or an input measure based upon actual labor costs as a percentage of estimated total labor costs, depending upon which measure the Company believes best depicts the Company’s performance to date under the terms of the contract. Revenue recognized over time using an input measure was $33,225 and $20,447 for the three months ended September 30, 2018 and 2017, respectively, and $87,369 and $61,892 for the nine months ended September 30, 2018 and 2017, respectively. A certain portion of the Company’s revenue recognized over time under these long-term agreements is recognized using an output method, specifically units delivered, based upon certain customer acceptance and delivery requirements. Revenue recognized over time using an output measure was $11,510 and $11,096 for the three months ended September 30, 2018 and 2017, respectively, and $