

FOSTER L B CO
Form 10-Q
May 07, 2010

Table of Contents

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 March 31, 2010

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) 928-3417
(Registrant's telephone number, including area code)

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

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

* The registrant has not yet been phased into the interactive data requirements.

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

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

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☐

☒

☐

(Do not check if a smaller
reporting company)

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

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

| Class | Outstanding at April 22, 2010 |
|-------------------------------|-------------------------------|
| Common Stock, Par Value \$.01 | 10,183,964 Shares |

Table of Contents

L.B. FOSTER COMPANY AND SUBSIDIARIES

INDEX

| | |
|--|-----------|
| PART I. Financial Information | Page |
| Item 1. Financial Statements: | |
| <u>Condensed Consolidated Balance Sheets</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Operations</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>5</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>6</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>21</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | <u>30</u> |
| <u>Item 4. Controls and Procedures</u> | <u>30</u> |
| PART II. Other Information | |
| <u>Item 1. Legal Proceedings</u> | <u>31</u> |
| <u>Item 1A. Risk Factors</u> | <u>31</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>31</u> |
| <u>Item 5. Other Information</u> | <u>31</u> |
| <u>Item 6. Exhibits</u> | <u>32</u> |
| <u>Signature</u> | <u>36</u> |

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | March 31, 2010 | December 31, 2009 |
|---|-------------------|-------------------------|
| ASSETS | (Unaudited) | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 124,545 | \$ 124,845 |
| Accounts and notes receivable: | | |
| Trade | 40,998 | 59,062 |
| Other | 39 | 2,116 |
| | 41,037 | 61,178 |
| Inventories | 105,934 | 98,982 |
| Current deferred tax assets | 3,671 | 3,678 |
| Prepaid income taxes | - | 248 |
| Other current assets | 1,391 | 1,161 |
| Total Current Assets | 276,578 | 290,092 |
| Property, Plant & Equipment - At Cost | 103,786 | 102,289 |
| Less Accumulated Depreciation | (66,951) | (64,882) |
| | 36,835 | 37,407 |
| Other Assets: | | |
| Goodwill | 3,211 | 350 |
| Other intangibles - net | 1,852 | 25 |
| Investments | 3,628 | 3,358 |
| Deferred tax assets | 1,573 | 1,574 |
| Other assets | 1,381 | 362 |
| Total Other Assets | 11,645 | 5,669 |
| TOTAL ASSETS | \$ 325,058 | \$ 333,168 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | \$ 6,072 | \$ 5,406 |
| Accounts payable - trade | 53,265 | 61,839 |
| Accrued payroll and employee benefits | 4,300 | 6,106 |
| Other accrued liabilities | 5,598 | 6,409 |
| Total Current Liabilities | 69,235 | 79,760 |
| Long-Term Debt, Term Loan | 9,762 | 10,476 |
| Other Long-Term Debt | 3,390 | 2,721 |
| Deferred Tax Liabilities | 1,956 | 1,893 |
| Other Long-Term Liabilities | 5,761 | 5,726 |

STOCKHOLDERS' EQUITY:

| | | |
|---|------------------|------------------|
| Common stock | 111 | 111 |
| Paid-in capital | 47,519 | 47,660 |
| Retained earnings | 214,540 | 212,787 |
| Treasury stock - at cost | (26,938) | (27,574) |
| Accumulated other comprehensive loss | (278) | (392) |
| Total Stockholders' Equity | 234,954 | 232,592 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$325,058 | \$333,168 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

| | Three Months Ended March 31, 2010 2009 (Unaudited) | |
|--|---|-----------|
| Net Sales | \$82,002 | \$101,613 |
| Cost of Goods Sold | 69,929 | 87,931 |
| Gross Profit | 12,073 | 13,682 |
| Selling and Administrative Expenses | 9,193 | 9,027 |
| Interest Expense | 245 | 328 |
| Interest Income | (74) | (295) |
| Equity in Losses of Nonconsolidated Investment | 147 | - |
| Other Income | (102) | (143) |
| | 9,409 | 8,917 |
| Income Before Income Taxes | 2,664 | 4,765 |
| Income Tax Expense | 911 | 1,746 |
| Net Income | \$1,753 | \$3,019 |
| Basic Earnings Per Share | \$0.17 | \$0.30 |
| Diluted Earnings Per Share | \$0.17 | \$0.29 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

| | Three Months Ended March 31, 2010 2009 (Unaudited) | |
|--|--|----------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$1,753 | \$3,019 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Deferred income taxes | 7 | 1 |
| Depreciation and amortization | 2,163 | 2,148 |
| Loss (gain) on sale of property, plant and equipment | 1 | (1) |
| Deferred gain amortization on sale-leaseback | (54) | (54) |
| Equity in losses of nonconsolidated investment | 147 | - |
| Stock-based compensation | 215 | 123 |
| Unrealized loss on derivative mark-to-market | 11 | 7 |
| Excess tax benefit from share-based compensation | (200) | - |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 20,141 | 5,603 |
| Inventories | (6,034) | 4,858 |
| Other current assets | (96) | (753) |
| Prepaid income tax | 448 | - |
| Other noncurrent assets | 51 | (65) |
| Accounts payable - trade | (8,574) | (21,897) |
| Accrued payroll and employee benefits | (1,806) | (4,367) |
| Other current liabilities | (811) | (760) |
| Other liabilities | 16 | 8 |
| Net Cash Provided (Used) by Operating Activities | 7,378 | (12,130) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of property, plant and equipment | - | 1 |
| Acquisitions | (5,050) | - |
| Capital contributions to equity method investment | (250) | - |
| Capital expenditures on property, plant and equipment | (1,329) | (582) |
| Net Cash Used by Investing Activities | (6,629) | (581) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments of long-term debt, term loan | (714) | (714) |
| Proceeds from exercise of stock options and stock awards | 80 | - |
| Excess tax benefit from share-based compensation | 200 | - |
| Treasury stock acquisitions | - | (1,863) |
| Repayments of other long-term debt | (615) | (821) |
| Net Cash Used by Financing Activities | (1,049) | (3,398) |

| | | |
|---|-----------|-----------|
| Net Decrease in Cash and Cash Equivalents | (300) | (16,109) |
| Cash and Cash Equivalents at Beginning of Period | 124,845 | 115,074 |
| Cash and Cash Equivalents at End of Period | \$124,545 | \$98,965 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest Paid | \$193 | \$535 |
| Income Taxes Paid | \$272 | \$3,641 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

1. FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all estimates and adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. However, actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. Amounts included in the balance sheet as of December 31, 2009 were derived from our audited balance sheet. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

2. NEW ACCOUNTING PRINCIPLES

In June 2009, the FASB issued changes to the consolidation guidance applicable to a variable interest entity (VIE). FASB ASC Topic 810, "Consolidation," amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity's economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, FIN 46R required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. Qualifying special-purpose entities, which were previously exempt from the application of this standard, are subject to the provisions of this standard. FASB ASC 810 also requires enhanced disclosures about an enterprise's involvement with a VIE. The Company adopted the changes issued by the FASB to accounting for VIE's on January 1, 2010.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, "Improving Disclosures about Fair Value Measurements." This Update provides amendments to FASB ASC 820, "Fair Value Measurements," that requires entities to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, the Update requires entities to present separately information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The disclosures related to Level 1 and Level 2 fair value measurements are effective for the Company beginning in 2010 and the disclosures related to Level 3 fair value measurements are effective for the Company in 2011. The Update requires only new disclosures and will have no impact on the Company's financial statements.

3. RECLASSIFICATIONS

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements, including reclassification of certain shipping and handling costs from sales to cost of goods sold.

4. ACQUISITIONS

Interlocking Deck Systems International, LLC

On March 23, 2010, the Company purchased, pursuant to an Asset Purchase Agreement (Purchase Agreement), certain assets of Interlocking Deck Systems International, LLC (IDSI) for \$7,000,000. The purchase price included \$5,050,000 in cash paid on the closing date and \$1,000,000 payable on the first anniversary of the closing, as defined in the Purchase Agreement, and \$950,000 payable on the second anniversary of the closing, with the deferred payment obligations being embodied in a promissory note. No liabilities were assumed in this acquisition. Acquisition costs were not significant for the three months ended March 31, 2010. The proforma results for this acquisition are not material to the Company's financial results.

Table of Contents

The acquisition of IDSI will strengthen the Company's position as a leading supplier of steel bridge decking. The acquisition has been accounted for in accordance with ASC 805, "Business Combinations." The Company is in the process of completing its fair market appraisals, including the valuation of certain identifiable intangible assets. Accordingly, the preliminary purchase price allocation is subject to change. The following table presents the preliminary allocation of the aggregate purchase price based on estimated fair values:

| | (in thousands) |
|------------------------|----------------|
| Equipment | \$ 1,241 |
| Inventory | 918 |
| Proprietary software | 90 |
| Non-compete agreements | 1,830 |
| Goodwill | 2,861 |
| Net assets acquired | \$ 6,940 |

Due to the timing of the closing, the above purchase price allocation is based on a preliminary valuation. The measurement period for purchase price allocations ends as soon as information on the facts and circumstances becomes available, but does not exceed a period of 12 months. If new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized for assets assumed, the Company will retrospectively adjust the amounts recognized as of the acquisition date.

The amount allocated to goodwill reflects the premium paid for the right to control the business acquired and synergies the Company expects to realize from expanding our steel bridge decking business and from the elimination of redundant selling and administrative responsibilities as well as workforce efficiencies as the employees of IDSI are not part of the acquisition. The goodwill is deductible for tax purposes and has been allocated to our Construction Products Segment.

Pursuant to the Purchase Agreement, other than the specifically identified assets included above, no other assets or liabilities of IDSI were included in the acquisition. IDSI will retain the use of certain of the acquired equipment for a limited transition period to allow IDSI to fulfill existing bids and backlog orders of the business. IDSI will retain all risk and be liable for any damage, loss, destruction or deterioration of the equipment and will deliver any such equipment to the Company, after the transition period, in the same condition as on the closing date.

Portec Rail Products, Inc.

On February 16, 2010, the Company, Foster Thomas Company, a West Virginia corporation and a wholly-owned subsidiary of the Company (Purchaser), and Portec Rail Products, Inc., a West Virginia corporation (Portec), entered into an Agreement and Plan of Merger (Merger Agreement).

Pursuant to the terms of the Merger Agreement, Purchaser commenced a tender offer (Offer) for all of the issued and outstanding shares of common stock, \$1.00 par value per share (Company Common Stock), of Portec at a price equal to \$11.71 per share of Company Common Stock (Shares), or approximately \$112,400,000, net to the seller in cash (Per-Share Amount), without interest (and subject to applicable withholding taxes). Upon the terms and subject to the conditions set forth in the Merger Agreement, following a successful completion of the Offer, Purchaser will be merged with and into Portec with Portec surviving the merger as a wholly-owned subsidiary of the Company (Merger). In the Merger, each Share (other than Shares owned by the Company, Purchaser, or shareholders, if any, who have perfected statutory dissenters' rights under West Virginia law) will be converted into the right to receive the Per-Share Amount, without interest (and subject to applicable withholding taxes). The consummation of the Merger

is conditioned, among other matters, upon the receipt of necessary approvals under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (HSR Act).

Concurrently with the execution of the Merger Agreement, the Company also entered into a Tender and Voting Agreement, dated as of February 16, 2010 (Tender Agreement), with Purchaser and all of the directors and executive officers of Portec (Shareholders). The Shareholders have agreed to tender all of the Shares that each of them owns, including any Shares which such Shareholder acquires ownership of after the date of the Tender Agreement and prior to the termination of the Tender Agreement, to Purchaser in the Offer. Furthermore, each Shareholder has agreed, at any meeting of the shareholders of Portec, to vote all Shares (a) in favor of adopting the Merger Agreement and any transactions contemplated thereby, including the Merger, (b) against any alternative transaction proposal and (c) against any action that would delay, prevent or frustrate the Offer and the Merger and the related transactions contemplated by the Merger Agreement.

Table of Contents

Effective March 5, 2010, the Company voluntarily withdrew and re-filed its HSR Act filing. This withdrawal and re-filing was undertaken in order to provide the Antitrust Division with additional time to review the information submitted by the Company and Portec. Under the HSR Act, the purchase of Shares in the Offer may not be completed until the expiration of a 15-calendar-day waiting period following the filing of certain required information and documentary material concerning the Offer with the FTC and the Antitrust Division, unless the waiting period is earlier terminated by the FTC and the Antitrust Division. Portec filed a Premerger Notification and Report Form with respect to the Offer and the Merger on February 19, 2010, pursuant to the requirements of the HSR Act. The Company filed a Premerger Notification and Report Form with respect to the Offer and the Merger with the FTC and the Antitrust Division on February 19, 2010, pursuant to the requirements of the HSR Act. The Company voluntarily withdrew and re-filed its Notification and Report Form effective March 5, 2010 in order to provide the Antitrust Division with additional time to review the information submitted by L.B. Foster and Portec. As a result, the waiting period applicable to the purchase of Shares pursuant to the Offer and Merger was scheduled to expire at 11:59 p.m., Eastern Time, on March 22, 2010.

On March 22, 2010, the Company and Portec issued a joint press release announcing that the Company and Portec had each received a formal Second Request for additional information and documentary material from the Antitrust Division regarding the Offer and Merger. As a result of the Second Request, the waiting period under the HSR Act during which the Antitrust Division is permitted to review the proposed transaction has been extended until 11:59 p.m., Eastern Time, on the 10th day after the Company's compliance with the Second Request, or until 11:59 p.m., Eastern Time, on the next business day following that date, if the 10th day falls on a weekend or federal holiday. The Company and Portec expect to promptly respond to the Second Request, and to continue to work cooperatively with the Antitrust Division as it conducts its review of the proposed transaction. As a result of the Second Request, the Company and Purchaser presently intend to extend the expiration time of the Offer from time to time if the HSR Act waiting period has not expired at the then expiration time of the Offer. The Company and Purchaser do not have the right under the merger agreement to unilaterally extend the expiration time of the Offer beyond June 15, 2010.

On March 23, 2010, the Company announced that it extended its previously announced cash tender offer, through its wholly-owned subsidiary, Purchaser, for all outstanding shares of common stock of Portec until 12:00 midnight, New York City time, on April 26, 2010. The tender offer was previously set to expire at midnight, New York City Time on March 25, 2010.

On April 21, 2010, the Court of Common Pleas of Allegheny County, Pennsylvania (Court) entered an order in the matter captioned *In re Portec Rail Products, Inc. Shareholders Litigation* preliminarily enjoining Purchaser from completing the Offer until the Court determines that the Board of Directors of Portec has cured the breach of fiduciary duties as found by the Court and disclosed certain material information.

On April 26, 2010, the Company announced that it is extending its previously announced cash tender offer, through the Purchaser, for all outstanding shares of common stock of Portec, until 12:00 midnight, New York City time, on June 1, 2010. The tender offer was previously set to expire at midnight, New York City Time on April 26, 2010. As of April 26, 2010, 5,109,976 shares of common stock had been tendered in and not withdrawn from the offer. These tendered shares constituted 53.22% of the outstanding shares of common stock.

Acquisition costs were approximately \$471,000 for the three months ended March 31, 2010 and were classified as "Selling and administrative expenses."

5. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, “Fair Value Measurements and Disclosures,” defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements, but it does apply to existing accounting pronouncements that require or permit fair value measurements. The Company applies the provisions of Topic 820 to all its assets and liabilities that are being measured and reported on a fair value basis.

Table of Contents

ASC 820 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). Topic 820 enables readers of financial statements to assess the inputs used to develop those measurements by establishing a hierarchy, which prioritizes those inputs used, for ranking the quality and reliability of the information used to determine fair values. The standard requires that each asset and liability carried at fair value be classified into one of the following categories:

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

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

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

The Company has an established process for determining fair value for its financial assets and liabilities, principally cash and cash equivalents, available-for-sale securities and foreign exchange contracts. Fair value is based on quoted market prices, where available. If quoted market prices are not available, fair value is based on assumptions that use as inputs market-based parameters. The following sections describe the valuation methodologies used by the Company to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate the description includes details of the key inputs to the valuations and any significant assumptions.

Cash equivalents. Included within “Cash and cash equivalents” are principally investments in tax-free and taxable money market funds with municipal bond issuances as the underlying securities as well as government agency obligations and corporate bonds, all of which maintain AAA credit ratings. Also included within cash equivalents are our investments in bank certificates of deposit. The Company uses quoted market prices to determine the fair value of these investments and they are classified in Level 1 of the fair value hierarchy. The carrying amounts approximate fair value because of the short maturity of the instruments.

Available-for-sale equity securities. The Company uses quoted market prices to determine the fair value of its available-for-sale securities. These instruments consist of exchange-traded equity securities, are included within “Investments” and are classified in Level 1 of the fair value hierarchy. Unrealized gains and temporary unrealized losses are included in accumulated other comprehensive income or loss, respectively.

Derivative contracts. The Company uses significant other observable inputs that are readily available in public markets or can be derived from information available in publicly quoted markets to determine the fair value of its derivative contracts. These instruments consist of foreign exchange contracts, are included within “Other accrued liabilities,” and are classified in Level 2 of the fair value hierarchy. Fluctuations in the fair values of derivative instruments are recorded in accumulated other comprehensive loss and reclassified into earnings as the underlying hedged items affect earnings. There were no such instruments as of March 31, 2010.

Table of Contents

The following assets and liabilities were measured at fair value on a recurring basis subject to the disclosure requirements of ASC Topic 820 at March 31, 2010 and December 31, 2009:

| | | Fair Value Measurements at Reporting Date Using | | |
|--------------------------------------|--------------|---|-------------|--------------|
| | | Quoted Prices in | Significant | Significant |
| | | Active Markets | Other | Unobservable |
| | | for Identical | Observable | Inputs |
| (in thousands) | March 31, | Assets | Inputs | Inputs |
| | 2010 | (Level 1) | (Level 2) | (Level 3) |
| Assets | | | | |
| Money market funds | \$ 109,414 | \$ 109,414 | \$ - | \$ - |
| Bank certificates of deposit | 10,024 | 10,024 | - | - |
| Cash equivalents at fair value | 119,438 | 119,438 | - | - |
| | | | | |
| Available-for-sale equity securities | 2,125 | 2,125 | - | - |
| | | | | |
| | \$ 121,563 | \$ 121,563 | \$ - | \$ - |
| | | | | |
| | | Fair Value Measurements at Reporting Date Using | | |
| | | Quoted Prices in | Significant | Significant |
| | | Active Markets | Other | Unobservable |
| | | for Identical | Observable | Inputs |
| (in thousands) | December 31, | Assets | Inputs | Inputs |
| | 2009 | (Level 1) | (Level 2) | (Level 3) |
| Assets | | | | |
| Money market funds | \$ 109,131 | \$ 109,131 | \$ - | \$ - |
| Bank certificates of deposit | 15,115 | 15,115 | - | - |
| Cash equivalents at fair value | 124,246 | 124,246 | - | - |
| | | | | |
| Available-for-sale equity securities | 1,958 | 1,958 | - | - |
| | | | | |
| | \$ 126,204 | \$ 126,204 | \$ - | \$ - |
| | | | | |
| Liabilities | | | | |
| Derivatives | \$ (18) | \$ - | \$ (18) | \$ - |
| Total other accrued liabilities | (18) | - | (18) | - |
| | | | | |
| | \$ (18) | \$ - | \$ (18) | \$ - |

6. ACCOUNTS RECEIVABLE

Credit is extended based upon an evaluation of the customer's financial condition and, generally, collateral is not required. Credit terms are consistent with industry standards and practices. Trade accounts receivable at March 31, 2010 and December 31, 2009 have been reduced by an allowance for doubtful accounts of (\$1,080,000) and (\$1,055,000), respectively.

Table of Contents

7. INVENTORIES

Inventories of the Company at March 31, 2010 and December 31, 2009 are summarized in the following table:

| | March 31, 2010 | December 31, 2009 |
|---|-------------------|-------------------------|
| (in thousands) | | |
| Finished goods | \$99,198 | \$92,190 |
| Work-in-process | 6,484 | 7,814 |
| Raw materials | 16,633 | 16,049 |
| Total inventories at current costs | 122,315 | 116,053 |
| Less: | | |
| LIFO reserve | (9,978) | (10,277) |
| Inventory valuation reserve | (6,403) | (6,794) |
| | \$105,934 | \$98,982 |

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

8. INVESTMENTS

Investments of the Company at March 31, 2010 and December 31, 2009 are summarized in the following table:

| | March 31, 2010 | December 31, 2009 |
|---|-------------------|-------------------------|
| (in thousands) | | |
| Available-for-sale marketable equity securities | \$2,125 | \$1,958 |
| Equity method investment | 1,503 | 1,400 |
| | \$3,628 | \$3,358 |

Additional information regarding the Company's marketable securities is as follows:

| | Cost | March 31, 2010 Gross Unrealized Gains (In thousands) | Gross Unrealized Losses | Fair Value |
|---|--------|--|-------------------------------|---------------|
| Available-for-sale marketable equity securities | \$ 794 | \$ 1,331 | \$ - | \$ 2,125 |

| | Cost | December 31, 2009 Gross Unrealized Gains (In thousands) | Gross Unrealized Losses | Fair Value |
|---|--------|---|-------------------------------|---------------|
| Available-for-sale marketable equity securities | \$ 794 | \$ 1,164 | \$ - | \$ 1,958 |

Table of Contents

9. INVESTMENT IN JOINT VENTURE

During 2009 the Company completed the formation of a joint venture with L B Industries, Inc. and James Legg for a period of 9.5 years. The Company, along with L B Industries, Inc., has a 45% ownership interest in the joint venture, L B Pipe & Coupling Products, LLC (JV), which commenced operations in January 2010. The venture plans to manufacture, market and sell various products for the energy, utility and construction markets.

Under applicable guidance for variable interest entities in ASC 810, "Consolidation," the Company determined that the JV is a variable interest entity, as the JV has not demonstrated that it has sufficient equity to support its operations without additional financial support. 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 JV. Accordingly, the Company concluded that the equity method of accounting remains appropriate.

The Company's exposure to loss results from its capital contributions, net of the Company's share of the venture's gains or losses, and its net investment in the direct financing lease covering the facility used by the JV for its operations. The carrying amounts with the maximum exposure to loss of the Company at March 31, 2010 are as follows:

| | (in thousands) |
|--|----------------|
| Equity method investment | \$ 1,503 |
| Net investment in direct financing lease | 1,063 |
| | \$ 2,566 |

The Company is leasing 5 acres of land and a facility to the JV over a period of 9.5 years, with a 5.5 year renewal period. Monthly rent over the term of the lease is approximately \$10,000, with a balloon payment of approximately \$488,000 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." At March 31, 2010, the Company maintained a net investment in this direct financing lease of approximately \$1,063,000.

The Company recorded equity in the losses of the JV of approximately \$147,000 for the three month period ended March 31, 2010.

10. RETIREMENT PLANS

Retirement Plans

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

Defined Benefit Plans

Net periodic pension costs for both plans for the three month periods ended March 31, 2010 and 2009 are as follows:

| (in thousands) | Three Months Ended March 31, | |
|--------------------------------|---------------------------------|-------|
| | 2010 | 2009 |
| Service cost | \$7 | \$7 |
| Interest cost | 66 | 65 |
| Expected return on plan assets | (71) | (57) |
| Prior service cost | - | 1 |
| Recognized net actuarial loss | 27 | 35 |
| Net periodic cost | \$29 | \$51 |

The Company expects to contribute approximately \$177,000 to its defined benefit plans in 2010.

Table of Contents

Defined Contribution Plans

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

The Company's employer match is 100% of the first 1% of deferred eligible compensation and up to 50% of the next 6%, based on years of service, of deferred eligible compensation, for a total maximum potential match of 4%. The Company may also make discretionary contributions to the Plan.

The expense associated with this plan for the three months ended March 31 was \$311,000 in 2010 and \$415,000 in 2009.

The Company also has a defined contribution plan for union hourly employees with contributions made by both the participants and the Company based on various formulas. The expense associated with this active plan for the three months ended March 31, 2010 and 2009 was \$7,000.

11. BORROWINGS

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

Revolving credit facility borrowings placed in LIBOR contracts are priced at prevailing LIBOR rates, plus 1.25%. Borrowings placed in other tranches are priced at the prevailing prime rate, minus 1.00%. The term loan base rate spread is fixed at prime minus 0.75% and the LIBOR spread is fixed at plus 1.50%.

The Company is permitted to use various additional debt instruments to finance capital expenditures, outside of borrowings under the Agreement, under limitations as defined in the Agreement. Under the amended Agreement, the Company maintains dominion over its cash at all times, as long as excess availability stays over \$5,000,000 and there is no uncured event of default.

In March 2009, the Company entered into a fifth amendment to the Agreement which became effective as of December 31, 2008 and changed certain financial covenants included in the Agreement by creating an exclusion standard in the Agreement. This standard, which is met by the Company when revolving credit facility borrowings do not exceed \$20,000,000 and unused borrowing commitment is at least \$50,000,000, allows for certain items, as defined in the amendment, to be excluded in determining the fixed charge coverage ratio. Additionally, the amendment redefines the Company's calculation of earnings before interest and taxes by excluding any charges and credits related to the Company's LIFO method of accounting for inventory.

The fifth amendment also includes a revised minimum net worth covenant and a revised maximum level for annual consolidated capital expenditures of \$15,000,000.

In November 2009, the Company entered into a sixth amendment to the Agreement. This amendment permits the Company to spend up to \$15,000,000, subject to overall limitations on acquisitions, to acquire non-domestic entities which do not become a borrower, as defined by the Agreement, to the Agreement. This amendment also raised the limit to \$15,000,000 on the amount of assets, as defined in the Agreement, which the Company is permitted to sell. Additionally, the sixth amendment eliminated the unscheduled prepayments of debt from the calculation of the fixed charge coverage ratio, as defined in the agreement.

As of March 31, 2010, the Company was in compliance with all of the Agreement's covenants.

Table of Contents

Under the term loan, the Company had \$12,381,000 outstanding at March 31, 2010 of which \$9,762,000 was noncurrent. At December 31, 2009 the Company had \$13,095,000 outstanding of which \$10,476,000 was noncurrent.

At March 31, 2010, there were no outstanding borrowings under the revolving credit facility and the Company had approximately \$57,447,000 in unused borrowing availability.

The Company's ability to pay cash dividends is limited by the Agreement.

12. EARNINGS PER COMMON SHARE

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

| | Three Months Ended March 31, | |
|---|---------------------------------|---------|
| (in thousands, except earnings per share) | 2010 | 2009 |
| Numerator: | | |
| Numerator for basic and diluted earnings per common share - net income available to common stockholders | \$1,753 | \$3,019 |
| Denominator: | | |
| Weighted average shares | 10,172 | 10,203 |
| Denominator for basic earnings per common share | 10,172 | 10,203 |
| Effect of dilutive securities: | | |
| Employee stock options | 91 | 100 |
| Other stock compensation plans | 52 | 36 |
| Dilutive potential common shares | 143 | 136 |
| Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversions | 10,315 | 10,339 |
| Basic earnings per common share | \$0.17 | \$0.30 |
| Diluted earnings per common share | \$0.17 | \$0.29 |

13. 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 \$215,000 and \$123,000 for the periods ended March 31, 2010 and 2009, respectively, related to stock option awards, restricted stock awards and performance unit awards as discussed below.

Stock Option Awards

The Company recorded no stock compensation expense related to stock option awards for the three month period ended March 31, 2010. The Company recorded stock compensation expense of \$16,000 for the three month period ended March 31, 2009 with related deferred tax benefits of \$6,000.

There were no nonvested awards at March 31, 2010. The fair value of non-vested options at March 31, 2009 was \$71,000, with a weighted average, grant date fair value of \$5.71. At March 31, 2009, there was \$9,000 of compensation expense related to nonvested awards which was expected to be recognized over a weighted-average period of 0.1 years.

There were no stock options granted during the first three months of 2010 or 2009.

At March 31, 2010 and 2009, common stock options outstanding under the plans had option prices ranging from \$2.75 to \$14.77, with a weighted average exercise price of \$5.80 and \$5.54 per share, respectively.

Table of Contents

The weighted average remaining contractual life of the stock options outstanding at March 31, 2010 and 2009 were 2.7 years and 3.3 years, respectively.

Options exercised during the three month period ended March 31, 2010 totaled 20,000 shares. There were no options exercised during the three month period ended March 31, 2009. The weighted average exercise price per share of the options exercised during the three month period ended March 31, 2010 was \$4.04. The total intrinsic value of options exercised during the three month period ended March 31, 2010 was \$527,000.

A summary of the option activity as of March 31, 2010 is presented below.

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|-----------|--|---|---------------------------------|
| Outstanding and Exercisable at January 1, 2010 | 180,950 | \$ 5.60 | 2.7 | |
| Granted | - | - | - | |
| Canceled | - | - | - | |
| Exercised | (20,000) | 4.04 | - | |
| Outstanding and Exercisable at March 31, 2010 | 160,950 | \$ 5.80 | 2.7 | \$3,716,336 |

The total intrinsic value of options outstanding at March 31, 2009 was \$3,756,000. The total intrinsic value of options exercisable at March 31, 2009 was \$3,635,000.

Shares issued as a result of stock option exercises generally are previously issued shares which have been reacquired by the Company and held as Treasury shares or authorized but previously unissued common stock.

Restricted Stock Awards

For the three month periods ended March 31, 2010 and 2009, the Company granted approximately 12,000 and 18,000 shares, respectively, of restricted stock to individuals who are not outside directors:

| Grant Date | Units | Grant Date Fair Value | Aggregate Fair Value | Vesting Date |
|---------------|--------|--------------------------|----------------------------|---------------|
| March 3, 2009 | 17,561 | \$20.63 | \$362,283 | March 3, 2013 |
| March 3, 2010 | 12,185 | 31.92 | 388,945 | March 3, 2014 |

Relative to the restricted stock awards granted to the non-outside directors and the performance unit awards, the Company recorded compensation expense of \$215,000 and \$107,000, respectively, for the three month periods ended March 31, 2010 and 2009. Shares issued as a result of restricted stock awards generally are previously issued shares which have been reacquired by the Company and held as Treasury shares or authorized but previously unissued common stock.

These forfeitable restricted stock awards time-vest after a four year holding period, unless indicated otherwise by the underlying agreement.

Table of Contents

Performance Unit Awards

Under separate three year incentive plans pursuant to the 2006 Omnibus Plan, as amended, the Company granted the following performance units during the three month periods ended March 31:

| Incentive Plan | Grant Date | Units | Grant Date Fair Value | Aggregate Fair Value | Vesting Date |
|----------------|---------------|--------|--------------------------|-------------------------|---------------|
| 2009 - 2011 | March 3, 2009 | 52,672 | \$20.63 | \$1,086,623 | March 3, 2012 |
| 2010 - 2012 | March 2, 2010 | 36,541 | 31.83 | 1,163,100 | March 2, 2013 |

These awards can be earned based upon the Company's performance relative to performance measures as defined in the plan. These awards are subject to forfeiture, cannot be transferred until four years after their grant date and will be converted into common stock of the Company based upon conversion multiples as defined in the underlying plan. The aggregate fair value in the above table is based upon reaching 100% of the performance targets as defined in the underlying plan. The number of shares awarded under the 2010 – 2012 Three Year Incentive Plan was determined using an average grant date fair value of \$29.39 over a ten day period in February 2010. The number of shares awarded under the 2009 – 2011 Three Year Incentive Plan was determined using an average grant date fair value of \$23.21 over a ten day period in February 2009.

14. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

On April 21, 2010, the Court of Common Pleas of Allegheny County, Pennsylvania (Court) entered an order in the matter captioned In re Portec Rail Products, Inc. Shareholders Litigation preliminarily enjoining Purchaser from completing the Offer until the Court determines that the Board of Directors of Portec has cured the breach of fiduciary duties as found by the Court and disclosed certain material information.

In March 2009, the Company discovered that some of the prestressed concrete railroad ties manufactured in 2004 and 2005 by its CXT Rail operation in Grand Island, NE had failed in track. The Company believes the cause was related to equipment fatigue on one production line at its Grand Island, NE facility before it was retrofitted with new equipment in the fall of 2005. The Company recorded a charge of \$1,600,000 within cost of goods sold for the Company's estimate of cracked concrete ties for the three month period ended March 31, 2009.

During the second quarter of 2009, along with customer personnel, the Company inspected the ties in question to confirm the number of cracked concrete ties. Upon conclusion of this inspection, the Company recorded an additional charge of \$1,124,000 within cost of goods sold during the second quarter ended June 30, 2009 bringing the cumulative warranty charge related to this issue to \$2,724,000.

Table of Contents

For certain manufactured products, the Company maintains a product liability accrual which is adjusted on a monthly basis as a percentage of cost of sales. This product liability accrual is periodically adjusted based on the identification or resolution of known individual product liability claims. The following table illustrates the Company's product warranty accrual:

| | (in thousands) |
|---------------------------------|----------------|
| Balance at December 31, 2009 | \$ 3,367 |
| Additions to warranty liability | 249 |
| Warranty liability utilized | (798) |
| Balance at March 31, 2010 | \$ 2,818 |

Included within the above table is the remaining concrete tie warranty related to the previously discussed cracked concrete tie charges of approximately \$1,822,000 as of March 31, 2010. While the Company believes this is a reasonable estimate of this potential warranty claim as a result of possible manufacturing defects, this estimate could change due to new information and future events. We have had recent discussions with a large customer regarding additional ties that this customer contends are damaged ties subject to warranty replacement. We believe that most of these ties are either structurally sound or damaged due to causes other than those which would require warranty replacement. Based upon our preliminary assessment, we do not believe that these communications requesting warranty replacements, which relate to ties made with equipment and processes that were replaced in 2005, are valid. There can be no assurance at this point that future potential costs pertaining to this claim or other potential future claims will not have a material impact on our results of operations.

At March 31, 2010 the Company had outstanding letters of credit of approximately \$818,000.

15. BUSINESS SEGMENTS

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

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

| (in thousands) | Three Months Ended | | | |
|-----------------------|--------------------|-----------------------|----------------|----------------|
| | March 31, 2010 | | March 31, 2009 | |
| | Net Sales | Segment Profit/(Loss) | Net Sales | Segment Profit |
| Rail products | \$41,060 | \$ 1,988 | \$56,309 | \$82 |
| Construction products | 36,202 | 1,526 | 37,917 | 2,241 |
| Tubular products | 4,740 | (158) | 7,387 | 1,360 |
| Total | \$82,002 | \$ 3,356 | \$101,613 | \$3,683 |

Segment profits, as shown above, include internal cost of capital charges for assets used in the segment at a rate of, generally, 1% per month. There has been no change in the measurement of segment profit from December 31, 2009.

Table of Contents

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

| (in thousands) | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2010 | 2009 |
| Income for reportable segments | \$3,356 | \$3,683 |
| Cost of capital for reportable segments | 3,898 | 4,935 |
| Interest expense | (245) | (328) |
| Interest income | 74 | 295 |
| Other income | 102 | 143 |
| LIFO credit | 299 | 250 |
| Equity in losses of nonconsolidated investments | (147) | - |
| Corporate expense and other unallocated charges | (4,673) | (4,213) |
| Income before income taxes | \$2,664 | \$4,765 |

16. COMPREHENSIVE INCOME

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

| (in thousands) | Three Months Ended March 31, | |
|--|---------------------------------|---------|
| | 2010 | 2009 |
| Net income | \$1,753 | \$3,019 |
| Market value adjustments for investments | 103 | (212) |
| Unrealized derivative gains (losses) on cash flow hedges | 11 | 9 |
| Comprehensive income | \$1,867 | \$2,816 |

17. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company adopted the required disclosures of FASB ASC Topic 815, "Derivatives and Hedging" on January 1, 2009. Topic 815 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows.

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

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

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

Table of Contents

In the fourth quarter of 2008, the Company entered into a commitment with a notional amount of approximately \$630,000 to buy Euro funds based on the anticipated receipt of Euro funds from the purchase of certain rail in the first quarter of 2009. During the first quarter of 2009, the Company determined that the receipt of Euros would not coincide with the purchase commitment and the Company recorded a loss of approximately \$7,000 to record this commitment at market which was reported as “Other (Income) Expense” within the Consolidated Statements of Operations.

In the first quarter of 2009, the Company entered into commitments with notional amounts totaling approximately \$974,000 to buy Euro funds based on the anticipated receipt of Euro funds from the purchase of certain rail in the second quarter of 2009. During the second quarter of 2009, these commitments matured for a realized gain of approximately \$105,000.

In the fourth quarter of 2009, the Company entered into commitments with notional amounts totaling approximately \$2,624,000 to sell Canadian funds based on the anticipated receipt of Canadian funds from the sale of certain rail in first quarter of 2010. During the first quarter of 2010, the Company determined that the receipt of Canadian funds would not coincide with the purchase commitment and the Company recorded a loss of approximately \$59,000 to record this commitment at market. During the first quarter of 2010, the Company entered into commitments with notional amounts totaling approximately \$2,683,000 to sell Canadian funds based on the anticipated receipt of Canadian funds from the aforementioned sale of certain rail in the first quarter of 2010. This contract matured for a realized gain of approximately \$59,000. These gains and losses were reported as “Other (Income) Expense” within the Consolidated Statements of Operations.

18. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill by segment for the three month period ended March 31, 2010 are as follows (in thousands):

| | (in thousands) |
|-----------------------------------|----------------|
| Balance at December 31, 2009 | \$ 350 |
| Goodwill from acquisition of IDSI | 2,861 |
| Balance at March 31, 2010 | \$ 3,211 |

The goodwill from the IDSI acquisition is included in the Construction Products segment.

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

| | March 31, 2010 | | December 31, 2009 | |
|------------------------|----------------|--------------|-------------------|--------------|
| | Gross | | Gross | |
| | Carrying | Accumulated | Carrying | Accumulated |
| | Amount | Amortization | Amount | Amortization |
| | (in thousands) | | | |
| Non-compete agreements | \$2,180 | \$ (350) | \$350 | \$ (350) |
| Patents | 125 | (103) | 125 | (100) |
| | \$2,305 | \$ (453) | \$475 | \$ (450) |

In connection with the acquisition of IDSI, the company preliminarily recorded \$1,830,000 of additional non-compete agreements during the three month period ended March 31, 2010. The non-compete agreements will be amortized over a period of 60 months. The amount recorded as non-compete agreements is an estimate as of March 31, 2010

and is subject to adjustment during the measurement period.

Table of Contents

As the Company has no indefinite lived intangible assets, all intangible assets are amortized over their useful lives ranging from 5 to 10 years. Amortization expense for the three month periods ending March 31, 2010 and 2009 was approximately \$3,000. Estimated amortization expense over the succeeding five years is as follows:

| | (In thousands) |
|------------|----------------|
| 2010 | \$ 287 |
| 2011 | 379 |
| 2012 | 366 |
| 2013 | 366 |
| 2014 | 366 |
| Thereafter | 88 |
| | \$ 1,852 |

Table of Contents

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

Overview

General

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

Recent Developments

On February 16, 2010 we entered into a Merger Agreement with Portec for us to acquire all of the issued and outstanding shares of Portec's common stock at a price equal to \$11.71 per share, or approximately \$112.4 million. Concurrently with the execution of the Merger Agreement, we also made a cash Tender Offer to purchase all of the shares of Portec. As of April 26, 2010, Shareholders collectively owning 5,109,976 shares, approximately 53.22% of the outstanding Shares, agreed to tender all such shares and vote in favor of adopting the Merger Agreement.

On April 21, 2010, the Court entered an order in the matter captioned In re Portec Rail Products, Inc. Shareholders Litigation preliminarily enjoining Purchaser from completing the Offer until the Court determines that the Board of Directors of Portec has cured the breach of fiduciary duties as found by the Court and disclosed certain material information.

On April 26, 2010, we announced that we were extending our previously announced cash tender offer, through the Purchaser, for all outstanding shares of common stock of Portec, until 12:00 midnight, New York City time, on June 1, 2010. The tender offer was previously set to expire at midnight, New York City Time on April 26, 2010. As of April 26, 2010, 5,109,976 shares of common stock had been tendered in and not withdrawn from the offer. These tendered shares constituted 53.22% of the outstanding shares of common stock.

The preceding shares of common stock and the related percentage which had been tendered in and not withdrawn from the offer does not include our investment in the equity securities of Portec. As of April 26, 2010, we owned 182,850 shares of common stock which, if these shares were included in shares tendered and not withdrawn, would increase the percentage to approximately 55.12% of the outstanding shares of common stock.

On March 23, 2010, we purchased, pursuant to the Purchase Agreement, certain assets of IDSI. The purchase price was \$7.0 million and it was allocated to certain equipment, raw material inventory, other assets, proprietary software, intangibles, and goodwill related to IDSI's steel bridge decking business. We paid \$5.1 million in cash on the closing date and issued \$1.0 million notes payable on the first and second anniversary of the closing.

Table of Contents

Critical Accounting Policies

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or method of its application, is generally accepted, management selects the principle or method that is appropriate in the Company's specific circumstances. Application of these accounting principles requires management to make estimates about the future resolution of existing uncertainties. As a result, actual results could differ from these estimates. In preparing these financial statements, management has made its best estimates and judgments of the amounts and disclosures included in 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, 2009. For more information regarding the Company's critical accounting policies, please see the Management's Discussion & Analysis of Financial Condition and Results of Operations in Form 10-K for the year ended December 31, 2009.

New Accounting Pronouncements

In June 2009, the FASB issued changes to the consolidation guidance applicable to a variable interest entity (VIE). FASB ASC Topic 810, "Consolidation," amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity's economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, FIN 46R required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. Qualifying special-purpose entities, which were previously exempt from the application of this standard, are subject to the provisions of this standard. FASB ASC 810 also requires enhanced disclosures about an enterprise's involvement with a VIE. We adopted the changes issued by the FASB to accounting for VIE's on January 1, 2010.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, "Improving Disclosures about Fair Value Measurements." This Update provides amendments to FASB ASC 820, "Fair Value Measurements," that requires entities to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, the Update requires entities to present separately information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The disclosures related to Level 1 and Level 2 fair value measurements are effective for the Company beginning in 2010 and the disclosures related to Level 3 fair value measurements are effective for the Company in 2011. The Update requires only new disclosures and will have no impact on our financial statements.

Table of Contents

Year-to-date Results of Operations

| | Three Months Ended March 31, | | Percent of Total Net Revenues Period Ended March 31, | | Percent Increase/(Decrease) 2010 vs. 2009 | |
|-----------------------|---------------------------------|------------|---|---------|--|---|
| | 2010 | 2009 | 2010 | 2009 | | |
| Dollars in thousands | | | | | | |
| Net Sales: | | | | | | |
| Rail Products | \$ 41,060 | \$ 56,310 | 50.1 % | 55.4 % | (27.1) | % |
| Construction Products | 36,202 | 37,917 | 44.1 | 37.3 | (4.5) | |
| Tubular Products | 4,740 | 7,386 | 5.8 | 7.3 | (35.8) | |
| Total Net Sales | \$ 82,002 | \$ 101,613 | 100.0 % | 100.0 % | (19.3) | % |

| | Three Months Ended March 31, | | Gross Profit Percentage Period Ended March 31, | | Percent Increase/(Decrease) 2010 vs. 2009 | |
|-----------------------|---------------------------------|-----------|--|--------|--|---|
| | 2010 | 2009 | 2010 | 2009 | | |
| Dollars in thousands | | | | | | |
| Gross Profit: | | | | | | |
| Rail Products | \$ 5,794 | \$ 4,522 | 14.1 % | 8.0 % | 28.1 % | |
| Construction Products | 5,994 | 7,249 | 16.6 | 19.1 | (17.3) | |
| Tubular Products | 381 | 2,014 | 8.0 | 27.3 | (81.1) | |
| LIFO Credit | 299 | 250 | 0.4 | 0.2 | ** | |
| Other | (395) | (353) | (0.5) | (0.3) | 11.9 | |
| Total Gross Profit | \$ 12,073 | \$ 13,682 | 14.7 % | 13.5 % | (11.8) | % |

| | Three Months Ended March 31, | | Percent of Total Net Revenues Period Ended March 31, | | Percent Increase/(Decrease) 2010 vs. 2009 | |
|--|---------------------------------|----------|---|--------|--|--|
| | 2010 | 2009 | 2010 | 2009 | | |
| Dollars in thousands | | | | | | |
| Expenses: | | | | | | |
| Selling and Administrative Expenses | \$ 9,193 | \$ 9,027 | 11.2 % | 8.9 % | 1.8 % | |
| Interest Expense | 245 | 328 | 0.3 | 0.3 | (25.3) | |
| Interest Income | (74) | (295) | (0.1) | (0.3) | (74.9) | |
| Equity in Losses of Nonconsolidated Investment | 147 | - | 0.2 | - | ** | |
| Other Income | (102) | (143) | (0.1) | (0.1) | (28.7) | |
| Total Expenses | 9,409 | 8,917 | 11.5 % | 8.8 % | 5.5 % | |

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| | | | | | | | | |
|----------------------------|----------|----------|-----|---|-----|---|--------|-----|
| Income Before Income Taxes | 2,664 | 4,765 | 3.2 | % | 4.7 | % | (44.1) |) % |
| Income Tax Expense | 911 | 1,746 | 1.1 | | 1.7 | | (47.8) |) |
| Net Income | \$ 1,753 | \$ 3,019 | 2.1 | % | 3.0 | % | (41.9) |) % |

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

First Quarter 2010 Compared to First Quarter 2009 – Company Analysis

Net income for the first quarter of 2010 was \$0.17 per diluted share which compares to net income for the first quarter of 2009 of \$0.29 per diluted share. Included in net income for the current quarter is our share of the losses from our equity investment in the JV, which is reported as “Equity in Losses of Nonconsolidated Investment.”

Acquisition costs of approximately \$0.5 million, primarily related to our acquisition of Portec, resulted in increased selling and administrative expenses over the prior year quarter. Selling and administrative expenses, exclusive of these acquisition costs, were approximately 3.4% lower in the first quarter of 2010 due to lower salaries and benefits, including incentive compensation. Lower interest rates reduced interest income earned on our various short-term investments compared to the prior year period. As the JV had not yet commenced significant revenue-generating activities, we recorded our 45% share of its start-up related expenses as of March 31, 2010. The effective income tax rate in the first quarter of 2010 was 34.2% compared to 36.6% in the prior year quarter. The decrease was due to an increased domestic manufacturing deduction and the reversal of a reserve relative to an uncertain tax position.

Table of Contents

Results of Operations – Segment Analysis

Rail Products

| | Three Months Ended March 31, | | | | Increase/ (Decrease) | | Percent Increase/(Decrease) | | |
|-------------------------|---------------------------------|--------|------|--------|-------------------------|-----------|--------------------------------|------|---|
| | 2010 | | 2009 | | 2010 vs. 2009 | | 2010 vs. 2009 | | |
| | Dollars in thousands | | | | | | | | |
| Net Sales | \$ | 41,060 | \$ | 56,310 | \$ | (15,250) | -27.1 | % | |
| Gross Profit | \$ | 5,794 | \$ | 4,522 | \$ | 1,272 | 28.1 | % | |
| Gross Profit Percentage | | 14.1 | % | 8.0 | % | 6.1 | % | 75.7 | % |

First Quarter 2010 Compared to First Quarter 2009

The overall decrease in Rail Products sales was caused by an approximate 38% decrease in sales volumes of our new rail distribution business as well as lower selling prices from the prior year period. This decrease was partially mitigated by improved sales from our CXT concrete tie, relay rail distribution and transit products divisions. Our CXT concrete tie division has experienced an increase in sales volumes from the UPRR while the volumes of our re-roll and other scrap rail has improved in our relay rail distribution business. Our transit products division entered 2010 with an increased backlog resulting, in part, from stimulus-related funding.

The lower gross profit resulting from decreased new rail distribution sales was more than offset by improved gross profit in our relay rail distribution, transit products and CXT concrete tie divisions. In the prior year quarter, we recorded a \$1.6 million charge related to concrete tie warranty issues at our Grand Island, NE facility.

Due to our expectations that Class 1 railroad capital spending will remain at prior year levels, we anticipate continued weakness in our Rail Products Segment sales and gross profit. We anticipate the industrial market will remain weak in 2010 further hampering our sales of various rail products. Partially offsetting these weaknesses is our transit products division. The strong popularity of mass transit systems coupled with stimulus legislation funding has led to the aforementioned increase in this division's backlog.

Table of Contents

Construction Products

| | Three Months Ended March 31, | | | | Increase/ (Decrease) 2010 vs. 2009 | | Percent Increase/(Decrease) 2010 vs. 2009 | | |
|-------------------------|---------------------------------|--------|------|--------|--|---------|---|-------|---|
| | 2010 | | 2009 | | | | | | |
| | Dollars in thousands | | | | | | | | |
| Net Sales | \$ | 36,202 | \$ | 37,917 | \$ | (1,715) | -4.5 | % | |
| Gross Profit | \$ | 5,994 | \$ | 7,249 | \$ | (1,255) | -17.3 | % | |
| Gross Profit Percentage | | 16.6 | % | 19.1 | % | -2.6 | % | -13.4 | % |

First Quarter 2010 Compared to First Quarter 2009

Our Construction Products segment experienced mixed results in the current quarter with improved sales from our fabricated bridge and concrete buildings divisions offset by a decline in our piling division. Our fabricated bridge division is benefitting from a renewed focus to improve the nation's bridge infrastructure while our concrete building division is realizing benefits from Federal spending, partially due to the stimulus legislation. While our piling sales volumes have increased over the prior year quarter, sales prices have declined due to lower commodity prices and a highly competitive market.

The decrease in our Construction Products gross profit margin was due entirely to our piling division suffering from margin compression due to increased competition. This decrease has been partially offset by improved gross profit margins across the rest of the segment.

Our heavy civil and public works construction markets remain soft nationwide. While we have seen opportunities generated from the stimulus bill, we do not expect this activity to compensate for the shortfalls created by the economic downturn.

Tubular Products

| | Three Months Ended March 31, | | | | Increase/ (Decrease) 2010 vs. 2009 | | Percent Increase/(Decrease) 2010 vs. 2009 | | |
|-------------------------|---------------------------------|-------|------|-------|--|----------|---|-------|---|
| | 2010 | | 2009 | | | | | | |
| | Dollars in thousands | | | | | | | | |
| Net Sales | \$ | 4,740 | \$ | 7,386 | \$ | (2,646) | -35.8 | % | |
| Gross Profit | \$ | 381 | \$ | 2,014 | \$ | (1,633) | -81.1 | % | |
| Gross Profit Percentage | | 8.0 | % | 27.3 | % | -19.2 | % | -70.5 | % |

First Quarter 2010 Compared to First Quarter 2009

Our Tubular Products segment continues to be hampered by an unfavorable, recessionary climate. Reduced market demand and falling prices have caused volume-related gross profit reductions and increased unfavorable manufacturing variances within this segment. While our threaded products facility reported a temporary increase in sales volumes from our strategy to exit the micropile market, we continue to expect the markets served by both our coated pipe and threaded products to be weak throughout 2010.

Table of Contents

Liquidity and Capital Resources

Our capitalization is as follows:

| | March 31, 2010 | December 31, 2009 |
|--|-------------------|-------------------------|
| Debt: | | |
| (In millions) | | |
| Term Loan, due May 2011 | \$12.4 | \$13.1 |
| Capital Leases and Interim Lease Financing | 5.0 | 5.5 |
| IDSi Acquisition Notes | 1.9 | - |
| Total Debt | 19.3 | 18.6 |
| Equity | 235.0 | 232.6 |
| Total Capitalization | \$254.3 | \$251.2 |

Total debt as a percentage of capitalization was approximately 7.6% as of March 31, 2010 compared to 7.4% at December 31, 2009. This measure reflects a strong financial position as there is minimal leverage and our cash balance covers debt by approximately a multiple of 6.4 times, excluding the impact that the successful closing of the Portec acquisition would have on our cash balances.

Our need for liquidity relates primarily to seasonal working capital requirements, capital expenditures, JV capital obligations, common stock repurchases, debt service obligations and acquisitions.

The following liquidity and capital resources discussion is as of March 31, 2010 and does not take into account the February 2010 announced merger agreement between us and Portec. Based on our tender offer, we propose to acquire the outstanding shares of Portec for \$11.71 per share, or approximately \$112.4 million in cash. We plan to fund this acquisition with our available cash and cash equivalents.

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

| (In millions) | March 31, 2010 | 2009 |
|--|-------------------|-----------|
| Liquidity needs: | | |
| Working capital and other assets and liabilities | \$3.5 | \$(17.4) |
| Common stock purchases | - | (1.9) |
| Capital expenditures | (1.3) | (0.6) |
| JV capital contributions | (0.3) | - |
| IDSi acquisition | (5.1) | - |
| Scheduled repayments of long-term debt | (0.7) | (0.7) |
| Other long-term debt scheduled repayments | (0.6) | (0.8) |
| Cash interest paid | (0.2) | (0.5) |
| Net liquidity requirements | (4.7) | (21.9) |
| Liquidity sources: | | |
| Internally generated cash flows before interest paid | 4.1 | 5.8 |
| Equity transactions | 0.3 | - |

| | | |
|-----------------------|----------|-----------|
| Net liquidity sources | 4.4 | 5.8 |
| Net Change in Cash | \$(0.3) | \$(16.1) |

Cash Flow from Operating Activities

During the first quarter of 2010, cash flows from operations provided \$7.4 million, a favorable increase of \$19.6 million compared to the first three months of 2009. Net income and adjustments to net income provided \$3.9 million for the 2010 period. Working capital provided \$3.5 million, a favorable increase of \$20.9 million over the prior year period.

Table of Contents

Cash Flow from Investing Activities

We funded a portion of the \$7.0 million to acquire IDSI through cash payments totaling \$5.1 million with the residual by issuing notes payable of \$1.0 million due on both the first and second anniversary of the closing. We contributed an additional \$0.3 million in capital to the JV as part of our required capital contributions. Capital expenditures were \$1.3 million for the first three months of 2010 compared to \$0.6 million for the same 2009 period. Current period expenditures were primarily used for facilities maintenance and technology infrastructure. We anticipate total capital spending in 2010 will range between \$6.0 million and \$7.0 million and will be funded by cash flow from operations.

Cash Flow from Financing Activities

The decrease in cash used by financing activities in 2010 as compared to 2009 is due to the absence of any purchases pursuant to our share repurchase program.

Financial Condition

We continue to see inconsistent opportunities generated from the Federal stimulus legislation primarily in our transit and concrete buildings divisions. We expect funding activity to decrease and, as a result, this activity is not expected to compensate for the shortfalls created by the current economic downturn.

We do, however, operate in this period of uncertainty in an extremely strong financial position. As of March 31, 2010, we had approximately \$124.5 million in cash and short-term instruments and a revolving credit facility with approximately \$57.4 million of availability compared to \$13.1 million in long-term debt. We believe this capacity will afford us the flexibility to take advantage of opportunities that we may encounter and weather the current economic downturn.

Included within cash and cash equivalents are principally investments in tax-free and taxable money market funds and bank certificates of deposit. The money market funds include municipal bond issuances as the underlying securities as well as government agency obligations and corporate bonds all of which maintain AAA credit ratings. Our priority continues to be the maintenance of our principal balances.

We also have a revolving credit agreement which expires in May 2011 and provides for up to \$90.0 million in borrowings to support our working capital and other liquidity requirements. Borrowings under this agreement are secured by substantially all the trade receivables and inventory owned by us, and are limited to 85% of eligible receivables and 60% of eligible inventory.

Under the term loan, we had \$12.4 million outstanding at March 31, 2010 of which \$9.8 million was noncurrent. Revolving credit facility borrowings placed in LIBOR contracts are priced at prevailing LIBOR rates, plus 1.25%. Borrowings placed in other tranches are priced at the prevailing prime rate, minus 1.00%. The term loan base rate spread is fixed at prime minus 0.75% and the LIBOR spread is fixed at plus 1.50%. As of March 31, 2010 we were in compliance with all of the Agreement's covenants. We anticipate that we will renegotiate our current revolving credit facility and replace it with a new facility in the second quarter of 2010.

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, 2009 is included in the "Liquidity and Capital Resources" section of the Company's 2009 Annual Report

filed on Form 10-K. These arrangements provide the Company with increased flexibility relative to the utilization and investment of cash resources.

Outlook

Our businesses and results of operations have been impacted by the downturn in the global economy. We believe that the recession, continued credit concerns and expected reductions in federal and state government tax receipts will present challenges to many of the end markets to which we sell. As a result of continued soft demand for certain of our products as well as heightened competition, we expect to battle margin compression for at least the next six months. We expect to be challenged in 2010 by moderating sales volumes, production volumes and heightened competition caused by the recessionary economic environment. However, we also expect to be profitable and to generate positive cash flow. We believe that when conditions do improve the markets we participate in will be poised to benefit. We continue to navigate through this period of uncertainty in an extremely strong financial position.

Table of Contents

Our agreement with the Union Pacific Railroad (UPRR) includes their purchasing concrete ties from our Grand Island, NE facility through 2010 and our Tucson, AZ facility through 2012. We are currently negotiating a short-term extension to our supply agreement with the UPRR at our Grand Island, NE location. While the UPRR will continue to purchase concrete ties under this agreement, we are currently uncertain when the UPRR purchasing level for concrete ties will improve and, as a result, both of our Grand Island, NE and Tucson, AZ facilities are operating at approximately 60% of capacity. We are actively pursuing, albeit in a difficult industrial market, product sales opportunities to other third parties at both of these locations.

During 2009 we recorded approximately \$2.7 million in warranty charges related to in-track failures of concrete railroad ties. We believe that we have identified, analyzed and accounted for prestressed concrete railroad ties that failed as a result of possible manufacturing defects. While we believe this is a reasonable estimate of this potential warranty claim, this estimate could change due to new information and future events. We have had recent discussions with a large customer regarding additional ties that this customer contends are damaged ties subject to warranty replacement. We believe that most of these ties are either structurally sound or damaged due to causes other than those which would require warranty replacement. Based upon our preliminary assessment, we do not believe that these communications requesting warranty replacements, which relate to ties made with equipment and processes that were replaced in 2005, are valid. There can be no assurance at this point that future potential costs pertaining to this claim or other potential future claims will not have a material impact on our results of operations.

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

Certain of our businesses rely heavily on spending authorized by the federal highway and transportation funding bill, SAFETEA-LU, enacted in August 2005. This legislation authorized \$286 billion for United States transportation improvement spending over a six-year period and expired in September 2009. This legislation has been extended through December 31, 2010. While certain estimates of the amounts that may be authorized under successor legislation to SAFETEA-LU range from \$400 to \$500 billion, there is significant uncertainty as to the timing of the renewal of this multi-year surface transportation legislation and the potential impact it may have on our markets. SAFETEA-LU was not approved until nearly two years after the previous authorization expired. This delay had a material detrimental impact upon the demand and spending levels in certain markets where we participated during 2003 to 2005.

We entered into a joint venture to manufacture, market and sell various products for the energy, utility and construction markets. In connection with the joint venture agreement we were required to make capital contributions of \$1.9 million, of which the final \$0.3 million required contribution was made in April 2010. No assurances can be given that additional capital contributions will not be required or that the joint venture will perform in accordance with our expectations.

Although backlog is not necessarily indicative of future operating results, total Company backlog at March 31, 2010, was approximately \$204.8 million, a 14.7% and 53.1% increase compared to December 31, 2010 and March 31, 2009, respectively. The following table provides the backlog by business segment:

| (In thousands) | Backlog | | |
|----------------|-----------|--------------|-----------|
| | March 31, | December 31, | March 31, |
| | 2010 | 2009 | 2009 |
| Rail Products | \$75,163 | \$54,505 | \$58,267 |

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| | | | |
|-----------------------|-----------|-----------|-----------|
| Construction Products | 123,780 | 120,845 | 70,728 |
| Tubular Products | 5,863 | 3,221 | 4,797 |
| Total Backlog | \$204,806 | \$178,571 | \$133,792 |

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

Table of Contents

Market Risk and Risk Management Policies

The Company adopted the required enhanced disclosures of FASB ASC Topic 815, “Derivatives and Hedging” on January 1, 2009. Topic 815 requires enhanced disclosures about an entity’s derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted, and (iii) how derivative instruments and related hedged items affect an entity’s financial position, results of operations and cash flows.

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

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

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

In the fourth quarter of 2008, the Company entered into a commitment with a notional amount of approximately \$0.6 million to buy Euro funds based on the anticipated receipt of Euro funds from the purchase of certain rail in the first quarter of 2009. During the first quarter of 2009, the Company determined that the receipt of Euros would not coincide with the purchase commitment and the Company recorded a loss of approximately \$7,000 to record this commitment at market which was reported as “Other (Income) Expense” within the Consolidated Statements of Operations.

In the first quarter of 2009, the Company entered into commitments with notional amounts totaling approximately \$1.0 million to buy Euro funds based on the anticipated receipt of Euro funds from the purchase of certain rail in the second quarter of 2009. During the second quarter of 2009, these commitments matured for a realized gain of approximately \$0.1 million.

In the fourth quarter of 2009, the Company entered into commitments with notional amounts totaling approximately \$2.6 million to sell Canadian funds based on the anticipated receipt of Canadian funds from the sale of certain rail in first quarter of 2010. During the first quarter of 2010, the Company determined that the receipt of Canadian funds would not coincide with the purchase commitment and the Company recorded a loss of approximately \$0.1 million to record this commitment at market. During the first quarter of 2010, the Company entered into commitments with notional amounts totaling approximately \$2.7 million to sell Canadian funds based on the anticipated receipt of Canadian funds from the aforementioned sale of certain rail in the first quarter of 2010. This contract matured for a realized gain of approximately \$0.1 million. These gains and losses were reported as “Other (Income) Expense” within the Consolidated Statements of Operations.

Forward-Looking Statements

There are no assurances regarding the timing of the closing of the merger agreement involving L. B. Foster and Portec and the expected benefits of the transaction, including potential synergies and cost savings, future financial and operating results, and the combined company's plans and objectives. Risks and uncertainties include the satisfaction of closing conditions for the acquisition, including clearance under the Hart-Scott-Rodino Antitrust Improvements Act; the tender of sixty-five percent of the outstanding shares of common stock of Portec Rail Products, Inc., calculated on a fully diluted basis; the possibility that the transaction will not be completed, or if completed, not completed on a timely basis; the potential that market segment growth will not follow historical patterns; general industry conditions and competition; business and economic conditions, such as interest rate and currency exchange rate fluctuations; technological advances and patents attained by competitors; and domestic and foreign governmental laws and regulations. L.B. Foster can give no assurance that any of the transactions related to the tender offer will be completed or that the conditions to the tender offer and the merger will be satisfied.

Table of Contents

There are no assurances that the purchase of IDSI will result in improved operating results.

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

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

A substantial portion of our operations are heavily dependent on governmental funding of infrastructure projects. Many of these projects have "Buy America" or "Buy American" provisions. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on our operating results. Additionally, government actions concerning "Buy America" provisions, taxation, tariffs, the environment, or other matters could impact our operating results.

Unexpected events including production delays or other problems encountered at our manufacturing facilities, equipment failures, failure to meet product specifications, additional concrete railroad tie defects and the availability of existing and new piling and rail products may cause our operating costs to increase or otherwise impact our financial performance.

The Company cautions readers that various factors could cause the actual results of the Company to differ materially from those indicated by forward-looking statements made from time to time in news releases, reports, proxy statements, registration statements and other written communications (including the preceding sections of this Management's Discussion and Analysis), as well as oral statements, such as references made to the future profitability, made from time to time by representatives of the Company. For a discussion of some of the specific risk factors, that may cause such differences, see the Company's Form 10-K for the year ended December 31, 2009.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

- a) L. B. Foster Company (the 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 March 31, 2010. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to timely alert them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

- b) There have been no significant changes in the Company's internal controls over financial reporting that occurred in the period covered by this report that have materially affected or are likely to materially affect the Company's internal controls over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

See Note 14, “Commitments and Contingent Liabilities”, to the Condensed Consolidated Financial Statements.

Item 1A. RISK FACTORS

There has not been any material change in the risk factors disclosure from that contained in the Company’s 10-K for the year ended December 31, 2009. In February 2010, the Securities and Exchange Commission published guidance regarding its existing disclosure requirements as they apply to climate change matters. A number of governments or governmental bodies have introduced or are contemplating legislative and regulatory change in response to the potential impacts of climate change including pending U.S. legislation that if enacted, would limit and reduce greenhouse gas emissions through a “cap and trade” system of allowances and credits, among other provisions. In addition, the U. S. Environmental Protection Agency has for the first time required large emitters of greenhouse gases to collect and report data with respect to their greenhouse gas emissions. Assessments of the potential impact, both positive or negative, of future climate change legislation, regulation and international treaties and accords are uncertain, given that these regulatory mechanisms may be either voluntary or legislated and may impact our operations directly or indirectly through our suppliers or customers.

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

The Company had no purchases of its equity securities for the three month period ended March 31, 2010. Purchases under the following plan have not been suspended:

| | Total Number Of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|----------------------|--|---------------------------------------|---|---|
| As of March 31, 2010 | 951,673 | \$29.78 | 951,673 | \$11,654,894 |

(1) On May 12, 2008, the Board of Directors authorized the repurchase of up to \$25,000,000 of the Company’s common shares until June 30, 2010. On October 28, 2008, the Board of Directors authorized the repurchase of up to an additional \$15,000,000 of the Company’s common shares until December 31, 2010 at which time this authorization will expire.

Item 5. OTHER INFORMATION

None.

Table of Contents

Item 6. EXHIBITS

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

- 2.1 Agreement and Plan of Merger, dated February 16, 2010, by and among L.B. Foster Company, Foster Thomas Company and Portec Rail Products, Inc. filed as Exhibit 2.1 to Form 8-K on February 17, 2010.
- 3.1 Restated Certificate of Incorporation, filed as Exhibit 3.1 to Form 10-Q for the quarter ended March 31, 2003.
- 3.2 Bylaws of the Registrant, as amended and filed as Exhibit 3.2 to Form 10-K for the year ended December 31, 2007.
- 4.0 Rights Amendment, dated as of May 15, 1997 between L. B. Foster Company and American Stock Transfer & Trust Company, including the form of Rights Certificate and the Summary of Rights attached thereto, filed as Exhibit 4.0 to Form 10-K for the year ended December 31, 2002.
- 4.1 Rights Amendment, dated as of October 24, 2006, between L. B. Foster Company and American Stock Transfer & Trust Company, including the form of Rights Certificate and the Summary of Rights attached thereto, filed as Exhibit 4B to Form 8-K on October 27, 2006.
- 10.0 Amended and Restated Revolving Credit Agreement dated May 5, 2005, between Registrant and PNC Bank, N.A., LaSalle Bank N.A., and First Commonwealth Bank, filed as Exhibit 10.0 to Form 10-Q for the quarter ended March 31, 2005.
- 10.0.1 First Amendment to Revolving Credit and Security Agreement dated September 13, 2005, between Registrant and PNC Bank, N.A., LaSalle Bank N.A., and First Commonwealth Bank, filed as Exhibit 10.0.1 to Form 8-K on September 14, 2005.
- 10.0.3 Third Amendment to Revolving Credit and Security Agreement dated February 8, 2007, between Registrant and PNC Bank, N.A., LaSalle Bank N.A., and First Commonwealth Bank, filed as Exhibit 10.0.3 to Form 8-K on February 9, 2007.
- 10.0.5 Fifth Amendment to Revolving Credit and Security Agreement dated March 4, 2009, between Registrant and PNC Bank, N.A., Bank of America, N.A., and First Commonwealth Bank, filed as Exhibit 10.0.5 to Form 10-K for the year ended December 31, 2008.
- 10.1 Form of Tender and Voting Agreement, dated February 16, 2010, by and among L.B. Foster Company, Foster Thomas Company and identified persons for the indicated number of shares of Portec Rail Products, Inc. filed as Exhibit 10.1 to Form 8-K on February 17, 2010.
- 10.12 Lease between CXT Incorporated and Pentzer Development Corporation, dated April 1, 1993, filed as Exhibit 10.12 to Form 10-K for the year ended December 31, 2004.

- 10.12.1 Second Amendment dated March 12, 1996 to lease between CXT Incorporated and Crown West Realty, LLC, successor, filed as Exhibit 10.12.1 to Form 10-K for the year ended December 31, 2004.
- 10.12.2 Third Amendment dated November 7, 2002 to lease between CXT Incorporated and Crown West Realty, LLC, filed as Exhibit 10.12.2 to Form 10-K for the year ended December 31, 2002.
- 10.12.3 Fourth Amendment dated December 15, 2003 to lease between CXT Incorporated and Crown West Realty, LLC, filed as Exhibit 10.12.3 to Form 10-K for the year ended December 31, 2003.
- 10.12.4 Fifth Amendment dated June 29, 2004 to lease between CXT Incorporated and Park SPE, LLC, filed as Exhibit 10.12.4 to Form 10-K for the year ended December 31, 2004.
- 10.12.5 Sixth Amendment dated May 9, 2006 to lease between CXT Incorporated and Park SPE, LLC, filed as Exhibit 10.12.5 to Form 10-Q for the quarter ended June 30, 2006.
- 10.12.6 Seventh Amendment dated April 28, 2008 to lease between CXT Incorporated and Park SPE, LLC, filed as Exhibit 10.12.6 to Form 8-K of May 2, 2008.

Table of Contents

- 10.13 Lease between CXT Incorporated and Crown West Realty, LLC, dated December 20, 1996, filed as Exhibit 10.13 to Form 10-K for the year ended December 31, 2004.
- 10.13.1 Amendment dated June 29, 2001 between CXT Incorporated and Crown West Realty, filed as Exhibit 10.13.1 to Form 10-K for the year ended December 31, 2007.
- 10.14 Lease of property in Tucson, AZ between CXT Incorporated and the Union Pacific Railroad Company dated May 27, 2005, filed as Exhibit 10.14 to Form 10-Q for the quarter ended June 30, 2005.
- 10.15 Lease of property in Grand Island, NE between CXT Incorporated and the Union Pacific Railroad Company, dated May 27, 2005, and filed as Exhibit 10.15 to Form 10-Q for the quarter ended June 30, 2005.
- 10.15.1 Industry Track Contract between CXT Incorporated and the Union Pacific Railroad Company, dated May 27, 2005, filed as Exhibit 10.15 to Form 10-Q for the quarter ended June 30, 2005.
- 10.16 Lease Agreement dated March 3, 2008 between CCI-B Langfield I, LLC, as Lessor, and Registrant as Lessee, related to Registrant's threading operation in Harris County, Texas and filed as Exhibit 10.16 to Form 8-K on March 7, 2008.
- 10.16.1 First Amendment dated April 1, 2008 to lease between CCI-B Langfield I, LLC, as Lessor, and Registrant as Lessee, related to Registrant's threading operation in Harris County, Texas, filed as Exhibit 10.16.1 to Form 8-K on May 1, 2008.
- 10.16.2 Second Amendment dated January 6, 2009 to lease between CCI-B Langfield I, LLC, as lessor, and Registrant as Lessee, related to Registrant's threading operation in Harris County, Texas, filed as Exhibit 10.16.2 to Form 10-K for the year ended December 31, 2008.
- 10.17 Lease between Registrant and the City of Hillsboro, TX dated February 22, 2002, and filed as Exhibit 10.17 to Form 10-K for the year ended December 31, 2007.
- 10.19 Lease between Registrant and American Cast Iron Pipe Company for pipe-coating facility in Birmingham, AL, dated December 11, 1991, filed as Exhibit 10.19 to Form 10-K for the year ended December 31, 2002.
- 10.19.1 Amendment to Lease between Registrant and American Cast Iron Pipe Company for pipe-coating facility in Birmingham, AL dated November 15, 2000, and filed as Exhibit 10.19.1 to Form 10-Q for the quarter ended March 31, 2006.
- 10.20 Equipment Purchase and Service Agreement by and between the Registrant and LaBarge Coating LLC, dated July 31, 2003, and filed as Exhibit 10.20 to Form 10-Q for the quarter ended September 30, 2003.

^10.21

Agreement for Purchase and Sales of Concrete Ties between CXT Incorporated and the Union Pacific Railroad dated January 24, 2005, and filed as Exhibit 10.21 to Form 10-K for the year ended December 31, 2004.

[^]10.21.1 Amendment to Agreement for Purchase and Sales of Concrete Ties between CXT Incorporated and the Union Pacific Railroad dated October 28, 2005, and filed as Exhibit 10.21.1 to Form 8-K on November 14, 2005.

Table of Contents

- 10.24 Asset Purchase Agreement by and between the Registrant and The Reinforced Earth Company dated February 15, 2006, filed as Exhibit 10.24 to Form 10-K for the year ended December 31, 2005.
- 10.25 Asset Purchase Agreement between Interlocking Deck Systems International, LLC and the Registrant dated March 23, 2010 filed as Exhibit 10.25 to Form 8-K on March 29, 2010.
- 10.33.2 Amended and Restated 1985 Long-Term Incentive Plan as of May 25, 2005, filed as Exhibit 10.33.2 to Form 10-Q for the quarter ended June 30, 2005. **
- 10.34 Amended and Restated 1998 Long-Term Incentive Plan as of May 25, 2005, filed as Exhibit 10.34 to Form 10-Q for the quarter ended June 30, 2005. **
- 10.34.1 Amendment, effective May 24, 2006, to Amended and Restated 1998 Long-Term Incentive Plan as of May 25, 2005, filed as Exhibit 10.34.1 to Form 8-K on May 31, 2006. **
- 10.45 Medical Reimbursement Plan (MRP1) effective January 1, 2006, filed as Exhibit 10.45 to Form 10-K for the year ended December 31, 2005. **
- 10.45.1 Medical Reimbursement Plan (MRP2) effective January 1, 2006, filed as Exhibit 10.45.1 to Form 10-K for the year ended December 31, 2005. **
- 10.46 Leased Vehicle Plan as amended and restated on September 1, 2007, filed as Exhibit 10.46 to Form 10-Q for the quarter ended September 30, 2007. **
- 10.51 Supplemental Executive Retirement Plan as Amended and Restated on January 1, 2009, filed as Exhibit 10.51 to Form 10-K for the year ended December 31, 2008. **
- 10.53 Directors' resolution dated March 6, 2008, under which directors' compensation was established, filed as Exhibit 10.53 to Form 10-Q for the quarter ended March 31, 2008. **
- 10.55 Management Incentive Compensation Plan for 2007, filed as Exhibit 10.55 to Form 8-K on March 8, 2007. **
- 10.57.1 2006 Omnibus Plan, as amended and restated March 6, 2008, filed as exhibit 10.57.1 to Form 8-K on March 12, 2008. **
- 10.58 Special Bonus Arrangement, effective May 24, 2006, filed as Exhibit 10.58 to Form 8-K on May 31, 2006. **
- 10.59 Executive Annual Incentive Compensation Plan, filed as Exhibit 10.59 to Form 8-K on March 12, 2008. **

Table of Contents

- 10.60 Letter agreement on Lee B. Foster II's retirement, filed as Exhibit 10.59 to Form 8-K on April 22, 2008. **
- 19 Exhibits marked with an asterisk are filed herewith.
- *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.
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- * Exhibits marked with an asterisk are filed herewith.
- ** Identifies management contract or compensatory plan or arrangement required to be filed as an Exhibit.
- ^ Portions of the exhibit have been omitted pursuant to a confidential treatment request.

Table of Contents

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: May 7, 2010

By: /s/ David J. Russo
David J. Russo
Senior Vice President,
Chief Financial and Accounting Officer and Treasurer
(Duly Authorized Officer of Registrant)

Table of Contents