

FOSTER L B CO
Form 10-Q
August 07, 2009

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 June 30, 2009**

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 (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).*

Yes No

* 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

(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
Common Stock, Par Value \$.01

Outstanding at July 28, 2009
10,155,714 Shares

L.B. FOSTER COMPANY AND SUBSIDIARIES
INDEX

	Page
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	30
<u>PART II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	31
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	31
<u>Item 5. Other Information</u>	32
<u>Item 6. Exhibits</u>	32
<u>Signature</u>	35
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.0</u>	

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 118,090	\$ 115,074
Accounts and notes receivable:		
Trade	49,688	63,271
Other	343	1,042
	50,031	64,313
Inventories	94,293	102,916
Current deferred tax assets	2,911	2,931
Prepaid income taxes	1,520	
Other current assets	1,641	1,221
Total Current Assets	268,486	286,455
Property, Plant & Equipment At Cost	99,522	97,439
Less Accumulated Depreciation	(61,506)	(57,450)
	38,016	39,989
Other Assets:		
Goodwill	350	350
Other intangibles net	31	37
Investments	4,541	2,856
Deferred tax assets	2,035	2,026
Other assets	367	407
Total Other Assets	7,324	5,676
TOTAL ASSETS	\$ 313,826	\$ 332,120
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$ 5,813	\$ 5,777
Accounts payable trade	45,926	62,612
Accrued payroll and employee benefits	4,323	8,000

Edgar Filing: FOSTER L B CO - Form 10-Q

Other accrued liabilities	7,502	7,802
Total Current Liabilities	63,564	84,191
Long-Term Debt, Term Loan	11,905	13,333
Other Long-Term Debt	6,754	8,401
Deferred Tax Liabilities	2,426	2,046
Other Long-Term Liabilities	6,497	6,587
STOCKHOLDERS' EQUITY:		
Common stock	111	111
Paid-in capital	47,698	47,585
Retained earnings	202,731	197,060
Treasury stock at cost	(27,836)	(26,482)
Accumulated other comprehensive loss	(24)	(712)
Total Stockholders' Equity	222,680	217,562
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 313,826	\$ 332,120

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 June 30,		Six Months Ended June 30,	
	2009 (Unaudited)	2008	2009 (Unaudited)	2008
Net Sales	\$ 93,771	\$ 129,833	\$ 191,515	\$ 223,274
Cost of Goods Sold	80,939	107,948	165,001	185,768
Gross Profit	12,832	21,885	26,514	37,506
Selling and Administrative Expenses	8,612	9,959	17,639	19,325
Interest Expense	333	488	661	1,043
Gain on Sale of DM&E Investment				(2,022)
Gain on Sale of Houston, TX Property				(1,486)
Interest Income	(212)	(586)	(507)	(1,401)
Other (Income) Expense	(186)	(135)	(329)	16
	8,547	9,726	17,464	15,475
Income Before Income Taxes	4,285	12,159	9,050	22,031
Income Tax Expense	1,633	4,502	3,379	8,068
Net Income	\$ 2,652	\$ 7,657	\$ 5,671	\$ 13,963
Basic Earnings Per Share	\$ 0.26	\$ 0.70	\$ 0.56	\$ 1.28
Diluted Earnings Per Share	\$ 0.26	\$ 0.69	\$ 0.55	\$ 1.26

See Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

L. B. FOSTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Six Months Ended June 30,	
	2009	2008
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,671	\$ 13,963
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Deferred income taxes	11	4
Depreciation and amortization	4,311	4,408
Gain on sale of DM&E investment		(2,022)
Gain on sale of property, plant and equipment	(1)	(1,476)
Deferred gain amortization on sale-leaseback	(107)	(72)
Stock-based compensation	545	652
Unrealized loss on derivative mark-to-market	32	34
Excess tax benefit from share-based compensation	(56)	(754)
Change in operating assets and liabilities:		
Accounts receivable	14,282	(20,255)
Inventories	8,623	(3,002)
Other current assets	(420)	(378)
Prepaid income tax	(1,464)	
Other noncurrent assets	15	15
Accounts payable trade	(16,686)	12,304
Accrued payroll and employee benefits	(3,677)	(5,439)
Other current liabilities	(300)	(425)
Other liabilities	17	(446)
Net Cash Provided (Used) by Operating Activities	10,796	(2,889)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property, plant and equipment	1	6,500
Proceeds from sale of DM&E investment		2,022
Capital contributions to equity method investment	(650)	
Capital expenditures on property, plant and equipment	(2,306)	(3,134)
Net Cash (Used) Provided by Investing Activities	(2,955)	5,388
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt, term loan	(1,428)	(1,666)
Proceeds from exercise of stock options and stock awards	21	464

Edgar Filing: FOSTER L B CO - Form 10-Q

Tax benefit related to stock options exercised	56	754
Treasury stock acquisitions	(1,863)	(13,831)
Repayments of other long-term debt	(1,611)	(1,669)
Net Cash Used by Financing Activities	(4,825)	(15,948)
Net Increase (Decrease) in Cash and Cash Equivalents	3,016	(13,449)
Cash and Cash Equivalents at Beginning of Period	115,074	121,097
Cash and Cash Equivalents at End of Period	\$ 118,090	\$ 107,648

Supplemental Disclosure of Cash Flow Information:

Interest Paid	\$ 593	\$ 996
Income Taxes Paid	\$ 7,253	\$ 9,096

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, 2009. Amounts included in the balance sheet as of December 31, 2008 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, 2008. We have evaluated all subsequent events through August 7, 2009, the date the financial statements were issued.

2. NEW ACCOUNTING PRINCIPLES

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

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157, (FSP FAS 157-2). FSP FAS 157-2 delayed the effective date of SFAS 157 (refer to Note 3) for all non-recurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The Company adopted the provisions of this standard beginning January 1, 2009.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, (SFAS 165). SFAS 165 establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The Company adopted the provisions of this standard beginning June 30, 2009.

In June 2009, the FASB issued SFAS no. 167, Amendments to FASB interpretation No. 46(R), (SFAS 167). SFAS 167 amends FASB Interpretation 46(R) (FIN 46R) and changes the consolidation guidance applicable to a variable interest entity (VIE). It also 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, will be subject to the provisions of this standard when it becomes effective. SFAS 167 also requires enhanced disclosures about an enterprise's involvement with a VIE. SFAS 167 is effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009.

3. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted

in the United States, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but it does apply to existing accounting pronouncements that require or permit fair value measurements. The Company adopted SFAS 157 on January 1, 2008. The adoption of this standard did not impact our

Table of Contents

financial position or results of operations, as the Company had previously determined the fair value of these instruments in a manner consistent with the requirements of SFAS 157.

SFAS 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. This standard discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). SFAS 157 enables readers of financial statements to assess the inputs used to develop those measurements by establishing a hierarchy, 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 and 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 and 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 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. No such instruments were outstanding at June 30, 2009.

Table of Contents

The following assets and liabilities were measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at June 30, 2009 and December 31, 2008:

(in thousands)	June 30, 2009	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds	\$ 105,418	\$ 105,418	\$	\$
Bank certificates of deposit	10,250	10,250		
Cash equivalents at fair value	115,668	115,668		
Available-for-sale securities	3,891	3,891		
Total Assets	\$ 119,559	\$ 119,559	\$	\$
(in thousands)	December 31, 2008	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds	\$ 104,257	\$ 104,257	\$	\$
Bank certificates of deposit	10,158	10,158		
Cash equivalents at fair value	114,415	114,415		
Available-for-sale securities	2,856	2,856		
Total Assets	\$ 117,271	\$ 117,271	\$	\$
Liabilities				
Derivatives	\$ (54)	\$	\$ (54)	\$

Total other accrued liabilities	(54)		(54)	
Total Liabilities	\$ (54)	\$	\$ (54)	\$

4. ACCOUNTS RECEIVABLE

Credit is extended based upon an evaluation of the customer's financial condition and, generally, collateral is not required. Credit terms are consistent with industry standards and practices. Trade accounts receivable at June 30, 2009 and December 31, 2008 have been reduced by an allowance for doubtful accounts of (\$1,369,000) and (\$2,637,000), respectively. The decrease in the allowance for doubtful accounts was due to the write-off of previously reserved trade accounts receivable.

Table of Contents**5. INVENTORIES**

Inventories of the Company at June 30, 2009 and December 31, 2008 are summarized in the following table:

(in thousands)	June 30, 2009	December 31, 2008
Finished goods	\$ 87,672	\$ 89,935
Work-in-process	7,470	13,275
Raw materials	23,336	25,198
Total inventories at current costs	118,478	128,408
Less:		
LIFO reserve	(19,559)	(21,316)
Inventory valuation reserve	(4,626)	(4,176)
	 \$ 94,293	 \$ 102,916

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.

6. INVESTMENTS

Investments of the Company at June 30, 2009 and December 31, 2008 are summarized in the following table:

(in thousands)	June 30, 2009	December 31, 2008
Available-for-sale marketable securities	\$ 3,891	\$ 2,856
Nonconsolidated equity method investments	650	
	 \$ 4,541	 \$ 2,856

Available-for-sale marketable securities were recorded with a cost of approximately \$1,714,000 and there are no gross unrealized losses. Gross unrealized gains related to the Company's available-for-sale securities are included within accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets and were approximately \$2,177,000 and \$1,142,000 at June 30, 2009 and December 31, 2008, respectively.

Effective May 26, 2009, the Company completed the formation of a joint venture. The Company has a 45% ownership interest in the new joint venture which will build a facility to manufacture, market and sell various products for the energy, utility and construction markets.

7. SALE-LEASEBACK

On March 3, 2008, the Company sold approximately 63 acres of real estate located in Houston, TX used primarily by the Company's Tubular Products segment for approximately \$6,500,000 and recorded a gain of \$1,486,000.

Pursuant to this sale, the Company entered into a sale-leaseback transaction, as amended on April 30, 2008, with the purchaser of the Houston, TX real estate for approximately 20 acres of the real estate and certain other assets for a ten year term at a monthly rental rate of \$1,000 per acre with annual 3% increases. The April 30, 2008 amendment added approximately 9 acres of real estate (Temporary Premises) on a month to month term basis. The January 6, 2009 amendment terminated the lease of approximately 4 acres of the Temporary Premises. The lease is a net lease with the

Company being responsible for taxes, maintenance, insurance and utilities. The Company uses the leased property for its threaded product operations.

This lease is being accounted for as an operating lease with an interest rate of 5.25% for the transaction. The transaction qualifies as a sale-leaseback under applicable guidance, including SFAS No. 98, Accounting for Leases, and the

Table of Contents

Company recorded as a deferred gain the present value of the minimum lease payments of the operating lease, \$2,146,000. This deferred gain is being amortized over the life of the lease, 120 months.

8. 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 and six month periods ended June 30, 2009 and 2008 are as follows:

<i>(in thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Service cost	\$ 7	\$ 5	\$ 14	\$ 10
Interest cost	65	63	130	126
Expected return on plan assets	(57)	(72)	(114)	(144)
Prior service cost	1	2	2	4
Recognized net actuarial loss	35	12	70	25
Net periodic benefit cost	\$ 51	\$ 10	\$ 102	\$ 21

The Company expects to contribute \$135,000 to its defined benefit plans in 2009. Contributions through June 30, 2009 were \$90,000.

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 June 30 was \$338,000 in 2009 and \$580,000 in 2008 and for the six months ended June 30 was \$753,000 in 2009 and \$1,018,000 in 2008.

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 June 30, 2009 and 2008 was \$9,000 and for the six months ended June 30, 2009 and 2008 was \$16,000 and \$17,000, respectively.

9. 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

Table of Contents

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, limited to an additional \$10,000,000. Under the amended Agreement, the Company maintains dominion over its cash at all times, as long as excess availability stays over \$5,000,000 and there is no uncured event of default.

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 minimum level for 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. As of June 30, 2009, the Company was in compliance with all of the Agreement's covenants.

Under the term loan, the Company had \$14,524,000 outstanding at June 30, 2009 of which \$11,905,000 was noncurrent. At December 31, 2008 the Company had \$15,952,000 outstanding of which \$13,333,000 was noncurrent. At June 30, 2009, there were no outstanding borrowings under the revolving credit facility and the Company had approximately \$76,334,000 in unused borrowing availability.

10. EARNINGS PER COMMON SHARE

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

(in thousands, except earnings per share)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Numerator:				
Numerator for basic and diluted earnings per common share - net income available to common stockholders:	\$ 2,652	\$ 7,657	\$ 5,671	\$ 13,963
Denominator:				
Weighted average shares	10,148	10,900	10,176	10,939
Denominator for basic earnings per common share	10,148	10,900	10,176	10,939
Effect of dilutive securities:				
Employee stock options	101	137	101	151
Other stock compensation plans	26	3	41	7
Dilutive potential common shares	127	140	142	158
Denominator for diluted earnings per common share adjusted weighted average shares and assumed conversions	10,275	11,040	10,318	11,097

Edgar Filing: FOSTER L B CO - Form 10-Q

Basic earnings per common share:	\$ 0.26	\$ 0.70	\$ 0.56	\$ 1.28
Diluted earnings per common share:	\$ 0.26	\$ 0.69	\$ 0.55	\$ 1.26

11

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

The Company applies the provisions of SFAS No. 123(R), Share-Based Payment and related interpretations (SFAS No. 123R) 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 employee's requisite service period. The Company recorded stock compensation expense of \$422,000 and \$623,000, respectively, for the three month periods ended June 30, 2009 and 2008 and \$545,000 and \$652,000 for the six month periods ended June 30, 2009 and 2008, respectively, related to stock option awards, restricted stock awards and performance unit awards as discussed below.

Stock Option Awards

The Company recorded stock compensation expense related to stock option awards of \$25,000 and \$55,000 for the six month periods ending June 30, 2009 and 2008, respectively. The related deferred tax benefits at June 30, 2009 and 2008 were \$9,000 and \$22,000, respectively.

There were no nonvested awards at June 30, 2009. At June 30, 2008, there was \$74,000 of compensation expense related to nonvested awards which was expected to be recognized over a weighted-average period of 0.7 years.

There were no stock options granted during the first six months of 2009 or 2008.

At June 30, 2009 and 2008, common stock options outstanding under the plans had option prices ranging from \$2.75 to \$14.77, with a weighted average exercise price of \$5.59 and \$5.85 per share, respectively.

The weighted average remaining contractual life of the stock options outstanding at June 30, 2009 and 2008 are 3.1 years and 4.1 years, respectively.

Options exercised during the six month periods ended June 30, 2009 and 2008 totaled 5,500 and 99,380 shares, respectively. The weighted average exercise price per share of the options exercised during the six month periods ended June 30, 2009 and 2008 were \$3.78 and \$4.67, respectively. The total intrinsic value of options exercised during the three month period ended June 30, 2009 was \$153,000. There were no options exercised during the three month period ended June 30, 2008. The total intrinsic value of options exercised during the six month periods ended June 30, 2009 and 2008 were \$153,000 and \$3,898,000, respectively.

A summary of the option activity as of June 30, 2009 is presented below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2009	194,700	\$5.54	3.6	
Granted				
Canceled				
Exercised	(5,500)	3.78		
Outstanding at June 30, 2009	189,200	\$5.59	3.1	\$4,631,616
Exercisable at June 30, 2009	189,200	\$5.59	3.1	\$4,631,616

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

During the six month periods ended June 30, 2009 and 2008 there were 10,500 fully vested restricted stock awards granted to the outside directors of the Company. The weighted average fair value per share of these restricted stock awards was \$29.89 and \$32.61, respectively.

Table of Contents

Compensation expense recorded by the Company related to restricted stock awards was approximately \$314,000 and \$342,000, respectively, for the three and six month periods ended June 30, 2009 and 2008.

A summary of the restricted stock awards activity as of June 30, 2009 is presented below.

	Restricted Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term	Aggregate Fair Value
Outstanding at January 1, 2009		\$		\$
Granted	10,500	29.89		313,845
Vested	(10,500)	29.89		(313,845)
Canceled				
Outstanding at June 30, 2009		\$		\$

Relative to the restricted stock awards granted to the non-outside directors and the performance unit awards, the Company recorded compensation expense of \$100,000 and \$120,000, respectively, for the three month periods ended June 30, 2009 and 2008. For the six month periods ended June 30, 2009 and 2008, the Company recorded compensation expense of \$206,000 and \$255,000, respectively, for these awards. 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.

For the six month periods ended June 30, 2009 and 2008, the Company granted approximately 18,000 and 12,000 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 6, 2008	7,756	\$40.03	\$310,473	March 6, 2012
June 2, 2008	3,850	34.19	131,632	June 2, 2012
March 3, 2009	17,561	20.63	362,283	March 3, 2013

These forfeitable restricted stock awards time-vest after a four year holding period.

In addition to the 12,000 shares of restricted stock granted as of June 30, 2008 noted above, the Company granted, pursuant to the 2006 Omnibus Plan, as amended, approximately 11,000 fully-vested shares during 2008 in lieu of a portion of the cash payment earned under the 2005-2007 Three Year Incentive Plan. This non-cash transaction of \$467,000 is reflected as an increase to Paid-in capital in the Consolidated Balance Sheet at December 31, 2008. These shares are not voluntarily transferable until May 1, 2010. The number of shares awarded under this plan was determined using an average share price of \$43.91 over a ten day period in February 2008. When these shares were awarded on March 6, 2008, the grant date fair value per share was \$40.03.

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 six month periods ended June 30:

Grant Date	Aggregate Fair
------------	-------------------

Edgar Filing: FOSTER L B CO - Form 10-Q

Incentive Plan	Grant Date	Units	Fair Value	Value	Vesting Date
2008 2010	March 6, 2008	23,273	\$40.03	\$ 931,618	March 6, 2011
2009 2011	March 3, 2009	52,672	20.63	1,086,623	March 3, 2012

13

Table of Contents

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 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. The number of shares awarded under the 2008-2010 Three Year Incentive Plan was determined using an average grant date fair value of \$43.91 over a ten day period in February 2008.

12. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is subject to laws and regulations relating to the protection of the environment, and the Company's efforts to comply with environmental regulations may have an adverse effect on its future earnings. In the opinion of management, compliance with the present environmental protection laws will not have a material adverse effect on the financial condition, results of operations, cash flows, competitive position, or capital expenditures of the Company. The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial condition or liquidity of the Company. The resolution, in any reporting period, of one or more of these matters could have a material effect on the Company's results of operations for that period.

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

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

In December 2008, the Company received a Third-Party Complaint, filed in the US District Court for the Western District of Oklahoma, alleging that the Company and others were responsible for certain contamination which migrated to adjacent properties in Payne County, Oklahoma. The Company is alleged to have owned the initially contaminated property pursuant to a 1978 quit claim deed. The Company sold, by quit claim deed, its interests, if any, in this property in 1979. The Company has referred this matter to its insurance carrier and, subject to reservations, the insurance carrier is defending this claim.

In late March of 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 is 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 as of the quarter 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 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, 2008	\$1,633
Additions to warranty liability	1,771
Warranty liability utilized	(409)
Balance at March 31, 2009	2,995
Additions to warranty liability	1,409
Warranty liability utilized	(301)
Balance at June 30, 2009	\$4,103

Included within the above table is the concrete tie warranty of approximately \$3,461,000 as of June 30, 2009 and includes the previously discussed additional charges. While the Company believes this is a reasonable estimate of this potential warranty claim, this estimate could change due to new information and future events. There can be no assurance at this point that future costs pertaining to this issue will not have a material impact on our results of operations.

At June 30, 2009 the Company had outstanding letters of credit of approximately \$2,859,000.

13. BUSINESS SEGMENTS

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

(in thousands)	Three Months Ended, June 30, 2009		Six Months Ended, June 30, 2009	
	Net Sales	Segment Profit/(Loss)	Net Sales	Segment Profit/(Loss)
Rail products	\$44,289	\$(1,131)	\$ 98,655	\$(1,049)
Construction products	44,473	3,088	80,560	5,329
Tubular products	5,009	44	12,300	1,404
Total	\$93,771	\$ 2,001	\$191,515	\$ 5,684

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

Edgar Filing: FOSTER L B CO - Form 10-Q

Total	\$129,833	\$14,750	\$223,274	\$21,235
-------	-----------	----------	-----------	----------

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, 2008.

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		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Income for reportable segments	\$ 2,001	\$14,750	\$ 5,684	\$21,235
Cost of capital for reportable segments	4,764	4,956	9,699	9,430
Interest expense	(333)	(488)	(661)	(1,043)
Gain on sale of DM&E investment				2,022
Gain on sale of Houston, TX property				1,486
Interest income	212	586	507	1,401
Other income (expense)	186	135	329	(16)
LIFO credit (expense)	1,507	(2,470)	1,757	(2,763)
Corporate expense and other unallocated charges	(4,052)	(5,310)	(8,265)	(9,721)
Income before income taxes	\$ 4,285	\$12,159	\$ 9,050	\$22,031

14. COMPREHENSIVE INCOME

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

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income	\$2,652	\$7,657	\$5,671	\$13,963
Market value adjustments for investments	866		654	
Unrealized derivative gains (losses) on cash flow hedges	25	(4)	34	72
Comprehensive income	\$3,543	\$7,653	\$6,359	\$14,035

15. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" an amendment of SFAS No. 133, (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. The Company adopted the required enhanced disclosures of SFAS 161 on January 1, 2009.

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.

During 2006, the Company entered into commitments to sell Canadian funds based on the anticipated receipt of Canadian funds from the sale of certain rail commencing in the second quarter of 2007 through the third quarter of 2008.

Table of Contents

All of these contracts were settled as of December 31, 2008. During 2008, two of these Canadian dollar denominated commitments matured for a realized loss of approximately \$129,000 which was reported as Other (Income) Expense within the Condensed Consolidated Statements of Operations.

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 Condensed Consolidated Statements of Operations. The fair value of this instrument was a liability of \$54,000 and was recorded in Other Accrued Liabilities as of December 31, 2008.

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. All of these contracts were settled as of June 30, 2009. For more information concerning the fair value measurements of these instruments, refer to Note 3, Fair Value Measurements.

16. SUBSEQUENT EVENTS

We have evaluated all subsequent events through August 7, 2009, the date the financial statements were issued. Through that date the Company sold a portion of its investment in available-for-sale marketable securities. The Company sold shares with original cost of approximately \$921,000 for a gain of approximately \$1,194,000. These shares were recorded at fair market value of approximately \$2,090,000 as of June 30, 2009. The Company utilized the specific identification method to determine the cost of the securities sold.

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

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

Recent Developments

In late March of 2009, we discovered that some of the prestressed concrete railroad ties manufactured between 2004 and 2005 by our CXT Rail operation in Grand Island, NE had failed in track. We believe the cause is related to equipment fatigue on one production line at our Grand Island, NE facility before it was retrofitted with new equipment in the fall of 2005. We recorded a charge of \$1.6 million within cost of goods sold for our estimate of cracked concrete ties as of the quarter ended March 31, 2009.

During the second quarter of 2009, along with Union Pacific Railroad (UPRR) personnel, we inspected the ties in question to confirm the number of cracked concrete ties. Upon conclusion of this inspection, we recorded an additional charge of \$1.1 million within cost of goods sold during the quarter ended June 30, 2009 bringing our cumulative warranty charge related to this issue to \$2.7 million.

While we believe this is a reasonable estimate of this potential warranty claim, this estimate could change due to new information and future events. There can be no assurance at this point that future costs pertaining to this issue will not have a material impact on our results of operations.

Also during the second quarter of 2009, the UPRR notified us that they would not accept certain prestressed concrete railroad ties produced at our Grand Island, NE facility due to questionable quality of certain raw materials. We believe this issue is isolated to below-specification raw material used in the production process received from one supplier. We brought these concrete ties back into inventory and wrote them down to our expected net realizable value. The impact of these rejected prestressed concrete railroad ties was a net unfavorable charge to gross profit of approximately \$2.6 million.

Table of Contents

In May 2009, we completed the formation of a joint venture. We have a 45% ownership interest in the new joint venture and made initial capital contributions of \$0.7 million in June 2009 and \$0.2 million in July 2009 as part of our total initial capital contribution of \$0.9 million. We are also required to make additional capital contributions of \$1.4 million to the joint venture. This venture will build a facility to manufacture, market and sell various products for the energy, utility and construction markets. This investment will be accounted for under the equity method of accounting as we have the ability to exert significant influence, but not control, over operating and financial policies. As of June 30, 2009, we reported investments in available-for-sale marketable securities with a fair value of approximately \$3.9 million. In July 2009, we sold a portion of this investment for approximately \$2.1 million in proceeds and recorded a corresponding gain of approximately \$1.2 million.

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, 2008. However, due to the significance of activity in the first six months of 2009, we have made additional disclosure below regarding our basis of financial statement presentation and investments accounting policies.

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, 2008.

Basis of financial statement presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, ventures and partnerships in which a controlling interest is held. All significant inter-company transactions have been eliminated. The Company utilizes the equity method of accounting for companies where its ownership is less than or equal to 50% and significant influence exists.

Investments

Investments in marketable equity securities are classified as available-for-sale and are recorded at fair value with unrealized gains and temporary losses included in accumulated other comprehensive income or loss, respectively. The Company regularly reviews its available-for-sale investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the Consolidated Statements of Operations.

Investments in companies in which the Company has the ability to exert significant influence, but not control, over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method. Under the equity method, investments are initially recorded at cost and adjusted for dividends and undistributed earnings and losses. The equity method of accounting requires a company to recognize a loss in the value of an equity method investment that is other than a temporary decline.

New Accounting Pronouncements

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

Table of Contents

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157, (FSP FAS 157-2). FSP FAS 157-2 delayed the effective date of SFAS 157 for all non-recurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The Company adopted the provisions of this standard beginning January 1, 2009.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, (SFAS 165). SFAS 165 establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The Company adopted the provisions of this standard beginning June 30, 2009. We have evaluated all subsequent events through August 7, 2009, the date the financial statements were issued.

In June 2009, the FASB issued SFAS no. 167, Amendments to FASB interpretation No. 46(R), (SFAS 167). SFAS 167 amends FASB Interpretation 46(R) (FIN 46R) and changes the consolidation guidance applicable to a variable interest entity (VIE). It also 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, will be subject to the provisions of this standard when it becomes effective. SFAS 167 also requires enhanced disclosures about an enterprises involvement with a VIE. SFAS 167 is effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009.

Table of Contents**Quarterly Results of Operations**

	Three Months Ended		Percent of Total Net Revenues		Percent Increase/(Decrease) 2009 vs. 2008
	June 30,		Three Months Ended June 30,		
	2009	2008	2009	2008	
	Dollars in thousands				
Net Sales:					
Rail Products	\$44,289	\$ 60,843	47.2%	46.9%	(27.2)%
Construction Products	44,473	60,039	47.4	46.2	(25.9)
Tubular Products	5,009	8,951	5.3	6.9	(44.0)
Total Net Sales	\$93,771	\$129,833	100.0%	100.0%	(27.8)%

	Three Months Ended		Gross Profit Percentage		Percent Increase/(Decrease) 2009 vs. 2008
	June 30,		Period Ended June 30,		
	2009	2008	2009	2008	
	Dollars in thousands				
Gross Profit:					
Rail Products	\$ 2,940	\$ 9,865	6.6%	16.2%	(70.2)%
Construction Products	8,128	12,491	18.3	20.8	(34.9)
Tubular Products	619	2,384	12.4	26.6	(74.0)
LIFO Credit (Expense)	1,507	(2,470)	1.6	(1.9)	161.0
Other	(362)	(385)	(0.4)	(0.3)	(6.0)
Total Gross Profit	\$12,832	\$21,885	13.7%	16.9%	(41.4)%

	Three Months Ended		Percent of Total Net Revenues		Percent Increase/(Decrease) 2009 vs. 2008
	June 30,		Period Ended June 30,		
	2009	2008	2009	2008	
	Dollars in thousands				
Expenses:					
Selling and Administrative Expenses	\$8,612	\$ 9,959	9.2%	7.7%	(13.5)%
Interest Expense	333	488	0.4	0.4	(31.8)
Gain on Sale of DM&E Investment					**
Gain on Sale of Houston, TX Property					**
Interest Income	(212)	(586)	(0.2)	(0.5)	(63.8)
Other (Income) Expense	(186)	(135)	(0.2)	(0.1)	37.8
Total Expenses	8,547	9,726	9.1%	7.5%	(12.1)%
Income Before Income Taxes	4,285	12,159	4.6%	9.4%	(64.8)%

Income Tax Expense	1,633	4,502	1.7	3.5	(63.7)
Net Income	\$2,652	\$ 7,657	2.8%	5.9%	(65.4)%

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

Second Quarter 2009 Compared to Second Quarter 2008 Company Analysis

Net income for the second quarter of 2009 was \$0.26 per diluted share compared to net income per diluted share of \$0.69 for the second quarter of 2008.

Our gross profit margin includes our current estimate of the impact of the LIFO method of accounting for inventory. Due principally to declining steel prices, we currently anticipate a positive adjustment resulting from our provision for LIFO and recorded our 2009 LIFO adjustment estimate as of June 30, 2009. The prior year period included an estimated negative impact caused by inflation. Gross profit was adversely affected by the \$1.1 million warranty charge related to concrete ties that failed in track and adjustments of \$2.6 million related to the return and subsequent write-down of concrete ties refused by the UPRR. These charges were previously discussed in more detail within the Recent Developments section and were both recorded within our Rail Products Segment.

Table of Contents

The 2009 second quarter decrease in Selling and Administrative expenses primarily resulted from reduced incentive compensation expense, outside services fees and bad debt expense. Reduced average cash and cash equivalents balances and lower rates contributed to reduced interest income earned on our various short-term investments during the second quarter of 2009. Income taxes in the current quarter were recorded at approximately 38.1%, an increase from the prior year period of 37.0%, due to increased nondeductible expenses.

Results of Operations Segment Analysis**Rail Products**

	Three Months Ended		Increase/(Decrease) 2009 vs. 2008	Percent Increase/(Decrease) 2009 vs. 2008
	2009	June 30, 2008		
	Dollars in thousands			
Net Sales	\$44,289	\$60,843	\$(16,554)	-27.2%
Gross Profit	\$ 2,940	\$ 9,865	\$ (6,925)	-70.2%
Gross Profit Percentage	6.6%	16.2%		