

FOSTER L B CO
Form 10-Q
May 04, 2016
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, 2016

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____

Commission File Number: 0-10436

L.B. Foster Company

(Exact name of Registrant as specified in its charter)

Pennsylvania
(State of Incorporation)

25-1324733
(I. R. S. Employer

Identification No.)

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

15220
(Zip Code)

(412) 928-3400

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

| Class | Outstanding at April 25, 2016 |
|-------------------------------|-------------------------------|
| Common Stock, Par Value \$.01 | 10,342,647 Shares |

Table of Contents

L.B. FOSTER COMPANY AND SUBSIDIARIES

INDEX

| | Page |
|--|-------------|
| <u>PART I. Financial Information</u> | |
| <u>Item 1. Financial Statements (unaudited):</u> | |
| <u>Condensed Consolidated Balance Sheets</u> | 3 |
| <u>Condensed Consolidated Statements of Operations</u> | 4 |
| <u>Condensed Consolidated Statements of Comprehensive Loss</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 8 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 24 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 31 |
| <u>Item 4. Controls and Procedures</u> | 31 |
| <u>PART II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 32 |
| <u>Item 1A. Risk Factors</u> | 32 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 32 |
| <u>Item 4. Mine Safety Disclosures</u> | 32 |
| <u>Item 6. Exhibits</u> | 33 |
| <u>Signature</u> | 34 |
| <u>Index to Exhibits</u> | 35 |

Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

| | March 31, 2016 (Unaudited) | December 31, 2015 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 30,883 | \$ 33,312 |
| Accounts receivable - net | 74,808 | 78,487 |
| Inventories - net | 92,204 | 96,396 |
| Prepaid income tax | 5,638 | 1,131 |
| Other current assets | 7,285 | 5,148 |
| Total current assets | 210,818 | 214,474 |
| Property, plant, and equipment - net | 126,012 | 126,745 |
| Other assets: | | |
| Goodwill | 81,554 | 81,752 |
| Other intangibles - net | 131,334 | 134,927 |
| Deferred tax assets | 226 | 226 |
| Investments | 5,124 | 5,321 |
| Other assets | 3,037 | 3,215 |
| Total assets | \$ 558,105 | \$ 566,660 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 46,246 | \$ 55,804 |
| Deferred revenue | 8,352 | 6,934 |
| Accrued payroll and employee benefits | 7,327 | 10,255 |
| Accrued warranty | 8,731 | 8,755 |
| Current maturities of long-term debt | 1,338 | 1,335 |
| Other accrued liabilities | 10,034 | 8,563 |
| Total current liabilities | 82,028 | 91,646 |
| Long-term debt | 173,573 | 167,419 |
| Deferred tax liabilities | 8,079 | 8,926 |
| Other long-term liabilities | 15,574 | 15,837 |
| Stockholders' equity: | | |
| Common stock, par value \$.01, authorized 20,000,000 shares; shares issued at March 31, 2016 and December 31, 2015, 11,115,779; shares outstanding at March 31, 2016 and December 31, 2015, 10,245,521 and 10,221,006, respectively | 111 | 111 |
| Paid-in capital | 44,960 | 46,681 |
| Retained earnings | 273,325 | 276,571 |
| Treasury stock - at cost, common stock, shares at March 31, 2016 and December 31, 2015, 870,258 and 894,773, respectively | (21,366) | (22,591) |
| Accumulated other comprehensive loss | (18,179) | (17,940) |

| | | |
|--|------------|------------|
| Total stockholders equity | 278,851 | 282,832 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 558,105 | \$ 566,660 |

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

Table of Contents

L.B. FOSTER COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2016 | 2015 |
| | (Unaudited) | |
| Sales of goods | \$ 107,915 | \$ 122,796 |
| Sales of services | 18,395 | 15,111 |
| Total sales | 126,310 | 137,907 |
| Cost of goods sold | 86,393 | 96,194 |
| Cost of services sold | 15,957 | 11,060 |
| Total cost of sales | 102,350 | 107,254 |
| Gross profit | 23,960 | 30,653 |
| Selling and administrative expenses | 22,817 | 22,251 |
| Amortization expense | 3,266 | 2,157 |
| Interest expense | 1,170 | 613 |
| Interest income | (55) | (57) |
| Equity in loss (income) of nonconsolidated investments | 196 | (173) |
| Other expense (income) | 715 | (803) |
| | 28,109 | 23,988 |
| (Loss) income before income taxes | (4,149) | 6,665 |
| Income tax (benefit) expense | (1,317) | 2,380 |
| Net (loss) income | \$ (2,832) | \$ 4,285 |
| Basic (loss) earnings per common share | \$ (0.28) | \$ 0.42 |
| Diluted (loss) earnings per common share | \$ (0.28) | \$ 0.41 |
| Dividends paid per common share | \$ 0.04 | \$ 0.04 |

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

Table of Contents

L.B. FOSTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

| | Three Months Ended March 31, 2016 2015 (Unaudited) | |
|---|--|----------|
| Net (loss) income | \$ (2,832) | \$ 4,285 |
| Other comprehensive loss, net of tax: | | |
| Foreign currency translation adjustment | 653 | (4,387) |
| Unrealized loss on cash flow hedges, net of tax benefit of \$612 | (968) | |
| Reclassification of pension liability adjustments to earnings, net of tax expense of \$39 and \$46* | 76 | 89 |
| Other comprehensive loss, net of tax | (239) | (4,298) |
| Comprehensive loss | \$ (3,071) | \$ (13) |

* Reclassifications out of accumulated other comprehensive income for pension obligations are charged to selling and administrative expense.
The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

L.B. FOSTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2016 | 2015 |
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | \$ (2,832) | \$ 4,285 |
| Adjustments to reconcile net (loss) income to cash provided by operating activities: | | |
| Deferred income taxes | (219) | (206) |
| Depreciation | 3,727 | 2,619 |
| Amortization | 3,266 | 2,157 |
| Equity loss (income) | 196 | (173) |
| Loss on sales and disposals of property, plant, and equipment | 71 | |
| Share-based compensation | (252) | 620 |
| Excess income tax deficiency (benefit) from share-based compensation | 76 | (310) |
| Change in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 4,274 | 16,044 |
| Inventories | 4,101 | (8,276) |
| Other current assets | (2,095) | (1,059) |
| Prepaid income tax | (4,630) | (745) |
| Other noncurrent assets | 144 | (1,429) |
| Dividends from LB Pipe & Coupling Products, LLC | | 90 |
| Accounts payable | (9,227) | (12,478) |
| Deferred revenue | 1,463 | (1,083) |
| Accrued payroll and employee benefits | (2,968) | (5,540) |
| Other current liabilities | (31) | (1,928) |
| Other liabilities | (171) | (17) |
| Net cash used by operating activities | (5,107) | (7,429) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from the sale of property, plant, and equipment | 97 | 4 |
| Capital expenditures on property, plant, and equipment | (3,125) | (4,466) |
| Acquisitions, net of cash acquired | | (189,200) |
| Loan to equity method investment | (575) | |
| Net cash used by investing activities | (3,603) | (193,662) |

Table of Contents

L.B. FOSTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2016 | 2015 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments of debt | (37,142) | (28,084) |
| Proceeds from debt | 43,304 | 219,891 |
| Proceeds from exercise of stock options and stock awards | | 68 |
| Financing fees | | (1,670) |
| Treasury stock acquisitions | (168) | (962) |
| Cash dividends on common stock paid to shareholders | (414) | (416) |
| Excess income tax (deficiency) benefit from share-based compensation | (76) | 310 |
| Net cash provided by financing activities | 5,504 | 189,137 |
| Effect of exchange rate changes on cash and cash equivalents | 777 | (2,520) |
| Net decrease in cash and cash equivalents | (2,429) | (14,474) |
| Cash and cash equivalents at beginning of period | 33,312 | 52,024 |
| Cash and cash equivalents at end of period | \$ 30,883 | \$ 37,550 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 1,056 | \$ 288 |
| Income taxes paid | \$ 3,585 | \$ 3,551 |

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

Table of Contents

L.B. FOSTER COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

1. **FINANCIAL STATEMENTS**

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all estimates and adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. However, actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The year-end Condensed Consolidated Balance Sheet as of December 31, 2015 was derived from audited financial statements. This Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In this Quarterly Report on Form 10-Q, references to we, us, our, and the Company refer collectively to L.B. Foster Company and its consolidated subsidiaries.

Recently issued accounting standards

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) . The new accounting requirements include the accounting for, presentation of, and classification of leases. The guidance will result in most leases being capitalized as a right of use asset with a related liability on our balance sheets. The requirements of the new standard are effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods. The Company is in the process of analyzing the impact of ASU 2016-02 on our financial position and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The Company is in the process of analyzing the impact of ASU 2016-09 on our financial position and results of operations.

Reclassifications

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

Table of Contents**2. BUSINESS SEGMENTS**

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

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

| | Three Months Ended March 31, 2016 | | Three Months Ended March 31, 2015 | |
|-----------------------------|--------------------------------------|--------------------------|--------------------------------------|-------------------|
| | Net Sales | Segment Profit (loss) | Net Sales | Segment Profit |
| Rail Products and Services | \$ 64,292 | \$ 741 | \$ 77,676 | \$ 6,072 |
| Construction Products | 31,880 | 448 | 34,290 | 1,228 |
| Tubular and Energy Services | 30,138 | (1,927) | 25,941 | 1,958 |
| Total | \$ 126,310 | \$ (738) | \$ 137,907 | \$ 9,258 |

Segment profits (losses) from operations, as shown above, include internal cost of capital charges for assets used in the segment at a rate of generally 1% per month. There has been no change in the measurement of segment profit from operations from December 31, 2015. The internal cost of capital charges are eliminated during the consolidation process.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2016 | 2015 |
| (Loss) income for reportable segments | \$ (738) | \$ 9,258 |
| Interest expense | (1,170) | (613) |
| Interest income | 55 | 57 |
| Other (expense) income | (715) | 803 |
| LIFO income (expense) | 73 | (6) |
| Equity in (loss) income of nonconsolidated investments | (196) | 173 |
| Corporate expense, cost of capital elimination, and other unallocated charges | (1,458) | (3,007) |
| (Loss) Income before income taxes | \$ (4,149) | \$ 6,665 |

Table of Contents**3. ACQUISITIONS****TEW Plus, LTD**

On November 23, 2015, the Company acquired the 75% balance of the remaining shares of TEW Plus, LTD (Tew Plus) for \$2,130, net of cash acquired. Headquartered in Nottingham, UK, Tew Plus provides telecommunications and security systems to the railway and commercial markets. Their offerings include full installation services including: design; project management; survey; and commissioning along with future maintenance. The results of Tew Plus operations are included within the Rail Products and Services segment from the date of acquisition.

Inspection Oilfield Services

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

Tew Holdings, LTD

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

Acquisition Summary

Each transaction was accounted for under the acquisition method of accounting under U.S. generally accepted accounting principles which requires an acquiring entity to recognize, with limited exceptions, all of the assets acquired and liabilities assumed in a transaction at fair value as of the acquisition date. Goodwill primarily represents the value paid for each acquisition s enhancement to the Company s product and service offerings and capabilities, as well as a premium payment related to the ability to control the acquired assets. The Company has concluded that intangible assets and goodwill values resulting from the IOS, Tew, and Tew Plus transactions will not be deductible for tax purposes.

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

| | November 23, 2015 - Tew Plus | March 13, 2015 - IOS | January 13, 2015 - Tew |
|--------------------------------|---------------------------------|-------------------------|---------------------------|
| Allocation of Purchase Price | | | |
| Current assets | \$ 4,420 | \$ 19,877 | \$ 12,125 |
| Other assets | | 708 | |
| Property, plant, and equipment | 47 | 51,453 | 2,398 |
| Goodwill | 822 | 69,908* | 8,772 |
| Other intangibles | 1,074 | 50,354 | 14,048 |
| Liabilities assumed | (3,597) | (23,596) | (6,465) |
| Total | \$ 2,766 | \$ 168,704 | \$ 30,878 |

* - As a result of the impact of the downturn within the energy markets, the expectations of a prolonged period before recovery, and the reduction in active U.S. land oil rig count, the Company performed an interim test for impairment of goodwill during the third quarter of

2015 which resulted in the full impairment of goodwill related to the IOS acquisition.

Table of Contents

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

| Intangible Asset | November 23, 2015 - Tew Plus | March 13, 2015 - IOS | January 13, 2015 - Tew |
|---|---------------------------------|-------------------------|---------------------------|
| Trade name | \$ | \$ 2,641 | \$ 870 |
| Customer relationships | 817 | 41,171 | 10,035 |
| Technology | 203 | 4,364 | 2,480 |
| Non-competition agreements | 54 | 2,178 | 663 |
| Total identified intangible assets | \$ 1,074 | \$ 50,354 | \$ 14,048 |

The purchase allocation for Tew Plus is based on a preliminary valuation. If new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement recognized for assets and liabilities assumed, the Company will recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table represents the goodwill balance by reportable segment:

| | Rail Products and Services | Construction Products | Tubular and Energy Services | Total |
|-------------------------------------|-------------------------------|--------------------------|--------------------------------|------------------|
| Balance at December 31, 2015 | \$ 48,188 | \$ 5,147 | \$ 28,417 | \$ 81,752 |
| Foreign currency translation impact | (198) | | | (198) |
| Balance at March 31, 2016 | \$ 47,990 | \$ 5,147 | \$ 28,417 | \$ 81,554 |

The Company performs goodwill impairment tests annually during the fourth quarter, and also performs interim goodwill impairment tests if it is determined that it is more likely than not that the fair value of a reporting unit is less than the carrying amount. Qualitative factors are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount. No goodwill impairment test was required in connection with these evaluations for the three months ended March 31, 2016. The Company continues to monitor the recoverability of the long-lived assets associated with certain of the Company's reporting units and the long-term financial projections of the businesses. Sustained declines in the markets they serve may result in future long-lived asset impairment.

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

| | 2016 | 2015 |
|-----------------------------|------------|------------|
| Rail Products and Services | \$ 58,878 | \$ 59,226 |
| Construction Products | 1,348 | 1,348 |
| Tubular and Energy Services | 98,166 | 98,166 |
| | \$ 158,392 | \$ 158,740 |

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

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

| | | March 31, 2016 | | |
|----------------------------|---|----------------------------|-----------------------------|---------------------------|
| | Weighted Average Amortization Period In Years | Gross Carrying Value | Accumulated Amortization | Net Carrying Amount |
| Non-compete agreements | 4 | \$ 6,968 | \$ (3,008) | \$ 3,960 |
| Patents | 10 | 390 | (136) | 254 |
| Customer relationships | 16 | 94,069 | (9,954) | 84,115 |
| Supplier relationships | 5 | 350 | (350) | |
| Trademarks and trade names | 13 | 14,230 | (3,329) | 10,901 |
| Technology | 13 | 42,385 | (10,281) | 32,104 |
| | | \$ 158,392 | \$ (27,058) | \$ 131,334 |

Table of Contents

| | Weighted Average Amortization Period In Years | December 31, 2015 | | Net Carrying Amount |
|----------------------------|---|----------------------------|-----------------------------|---------------------------|
| | | Gross Carrying Value | Accumulated Amortization | |
| Non-compete agreements | 4 | \$ 6,984 | \$ (2,495) | \$ 4,489 |
| Patents | 10 | 378 | (124) | 254 |
| Customer relationships | 16 | 94,338 | (8,441) | 85,897 |
| Supplier relationships | 5 | 350 | (335) | 15 |
| Trademarks and trade names | 13 | 14,252 | (3,025) | 11,227 |
| Technology | 13 | 42,438 | (9,393) | 33,045 |
| | | \$ 158,740 | \$ (23,813) | \$ 134,927 |

Intangible assets are amortized over their useful lives ranging from 2 to 25 years, with a total weighted average amortization period of approximately 14 years at March 31, 2016. Amortization expense for the three-month periods ended March 31, 2016 and 2015 was \$3,266 and \$2,157, respectively.

Estimated amortization expense for the remainder of 2016 and thereafter is as follows:

| | Amortization Expense |
|---------------------|----------------------|
| 2016 | \$ 9,780 |
| 2017 | 12,165 |
| 2018 | 11,833 |
| 2019 | 11,102 |
| 2020 | 10,670 |
| 2021 and thereafter | 75,784 |
| | \$ 131,334 |

5. ACCOUNTS RECEIVABLE

Credit is extended based upon an evaluation of the customer's financial condition and, while collateral is not required, the Company periodically receives surety bonds that guarantee payment. Credit terms are consistent with industry standards and practices. The amounts of trade accounts receivable at March 31, 2016 and December 31, 2015 have been reduced by an allowance for doubtful accounts of \$1,450 and \$1,485, respectively.

6. INVENTORIES

Inventories at March 31, 2016 and December 31, 2015 are summarized in the following table:

| | March 31, 2016 | December 31, 2015 |
|------------------------------------|-------------------|----------------------|
| Finished goods | \$ 54,969 | \$ 62,547 |
| Work-in-process | 21,859 | 20,178 |
| Raw materials | 21,124 | 19,492 |
| Total inventories at current costs | 97,952 | 102,217 |
| Less: LIFO reserve | (5,748) | (5,821) |
| | \$ 92,204 | \$ 96,396 |

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

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

Table of Contents**7. INVESTMENTS**

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

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

As of March 31, 2016 and December 31, 2015, the Company had a nonconsolidated equity method investment of \$4,996 and \$5,246, respectively, in the LB Pipe JV and other equity investments totaling \$128 and \$75, respectively.

The Company recorded equity in the loss of the LB Pipe JV of \$250 and equity in the income of the LB Pipe JV of \$189 for the three months ended March 31, 2016 and 2015, respectively. During the three-month period ending March 31, 2015, the Company received cash distributions of \$90. There were no changes to the members' ownership interests as a result of the distribution. During the three months ended March 31, 2016 the Company and the other 45% member each executed a revolving line of credit with the LB Pipe JV with an available limit of \$750. At March 31, 2016, the Company and the other 45% member each loaned \$575 to the LB Pipe JV in an effort to maintain compliance with the LB Pipe JV's debt covenants with an unaffiliated bank. The Company's loan with the LB Pipe JV matures on December 15, 2016.

The Company's exposure to loss results from its capital contributions and loans, net of the Company's share of the LB Pipe JV's income or loss, and its net investment in the direct financing lease covering the facility used by the LB Pipe JV for its operations, which is described below. The carrying amounts with the maximum exposure to loss of the Company at March 31, 2016 and December 31, 2015, respectively, are as follows:

| | March 31, 2016 | December 31, 2015 |
|--|-------------------|----------------------|
| LB Pipe JV equity method investment | \$ 4,996 | \$ 5,246 |
| Loan receivable | 575 | |
| Net investment in direct financing lease | 960 | 995 |
| | \$ 6,531 | \$ 6,241 |

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

The following is a schedule of the direct financing minimum lease payments for the remainder of 2016 and the years 2017 and thereafter:

| | Minimum Lease Payments |
|------|------------------------|
| 2016 | \$ 96 |
| 2017 | 140 |
| 2018 | 150 |
| 2019 | 574 |
| | \$ 960 |

Table of Contents**8. LONG-TERM DEBT****United States**

Long-term debt consists of the following:

| | March 31, 2016 | December 31, 2015 |
|---|-------------------|----------------------|
| Revolving credit facility | \$ 171,495 | \$ 165,000 |
| Capital leases and financing agreements | 3,416 | 3,754 |
| Total | 174,911 | 168,754 |
| Less current maturities | 1,338 | 1,335 |
| Long-term portion | \$ 173,573 | \$ 167,419 |

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

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

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

At March 31, 2016, L.B. Foster was in compliance with the Credit Agreement's covenants.

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

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

At March 31, 2016, L.B. Foster had outstanding letters of credit of approximately \$444 and had gross available borrowing capacity of \$163,061. The maturity date of the facility is March 13, 2020.

United Kingdom

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

A subsidiary of the Company has a credit facility with NatWest Bank for its United Kingdom operations which includes an overdraft availability of £1,500 pounds sterling (approximately \$2,154 at March 31, 2016). This credit facility supports the subsidiary's working capital requirements and is collateralized by substantially all of the assets of its United Kingdom operations. The interest rate on this facility is the financial institution's base rate plus 1.50%. Outstanding performance bonds reduce availability under this credit facility. The subsidiary of the Company had no outstanding borrowings under this credit facility as of March 31, 2016. There was approximately \$16 in outstanding guarantees (as defined in the

Table of Contents

underlying agreement) at March 31, 2016. This credit facility was renewed and amended during the fourth quarter of 2015 to include Tew and Tew Plus as parties to the agreement. All other underlying terms and conditions remained unchanged as a result of the renewal. It is the Company's intention to renew this credit facility with NatWest Bank during the annual review in 2016.

The United Kingdom credit facility contains certain financial covenants that require that subsidiary to maintain senior interest and cash flow coverage ratios. The subsidiary was in compliance with these financial covenants as of March 31, 2016. The subsidiary had available borrowing capacity of \$2,138 as of March 31, 2016.

9. Fair Value Measurements

The Company determines the fair value of assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The fair values are based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. The fair value hierarchy is based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions of what market participants would use. The fair value hierarchy includes three levels of inputs that may be used to measure fair value as described below:

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.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Cash equivalents - Included within Cash and cash equivalents are investments in non-domestic term deposits. The carrying amounts approximate fair value because of the short maturity of the instruments.

LIBOR-Based interest rate swaps - To reduce the impact of interest rate changes on outstanding variable-rate debt, the Company entered into forward starting LIBOR-based interest rate swaps with notional values totaling \$50,000. The swaps will become effective in February 2017 at which point it will effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contract. The fair value of the interest rate swaps is based on market-observable forward interest rates and represents the estimated amount that the Company would pay to terminate the agreements. As such, the swap agreements are classified as Level 2 within the fair value hierarchy. At March 31, 2016 the interest rate swaps were recorded within other accrued liabilities.

| | Fair Value Measurements at Reporting Date Using | | | | Fair Value Measurements at Reporting Date Using | | | |
|---------------------|---|--|---|--|---|--|---|--|
| | March 31, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | December 31, 2015 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Term deposits | \$ 3,017 | \$ 3,017 | \$ | \$ | \$ 1,939 | \$ 1,939 | \$ | \$ |
| Total assets | \$ 3,017 | \$ 3,017 | \$ | \$ | \$ 1,939 | \$ 1,939 | \$ | \$ |
| Interest rate swaps | \$ 1,786 | \$ | \$ 1,786 | \$ | \$ 196 | \$ | \$ 196 | \$ |
| Total liabilities | \$ 1,786 | \$ | \$ 1,786 | \$ | \$ 196 | \$ | \$ 196 | \$ |

Table of Contents**10. EARNINGS PER COMMON SHARE**

(Share amounts in thousands)

The following table sets forth the computation of basic and diluted (loss) earnings per common share for the periods indicated:

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2016 | 2015 |
| Numerator for basic and diluted earnings per common share - (Loss) income available to common stockholders: | | |
| Net (loss) income | \$ (2,832) | \$ 4,285 |
| Denominator: | | |
| Weighted average shares outstanding | 10,232 | 10,259 |
| Denominator for basic earnings per common share | 10,232 | 10,259 |
| Effect of dilutive securities: | | |
| Employee stock options | | 2 |
| Other stock compensation plans | | 98 |
| Dilutive potential common shares | | 100 |
| Denominator for diluted earnings per common share - adjusted weighted average shares outstanding and assumed conversions | 10,232 | 10,359 |
| Basic (loss) earnings per common share | \$ (0.28) | \$ 0.42 |
| Diluted (loss) earnings per common share | \$ (0.28) | \$ 0.41 |
| Dividends paid per common share | \$ 0.04 | \$ 0.04 |

During the three-month period ended March 31, 2016, there were approximately 47 anti-dilutive shares excluded from the above calculation.

11. STOCK-BASED COMPENSATION

The Company applies the provisions of FASB ASC 718, Compensation - Stock Compensation, to account for the Company's share-based compensation. Share-based compensation cost is measured at the grant date based on the calculated fair value of the award and is recognized over the employees' requisite service period. The Company recorded stock compensation expense of (\$252) and \$620 for the three-month periods ended March 31, 2016 and 2015, respectively, related to restricted stock awards and performance unit awards. At March 31, 2016, unrecognized compensation expense for awards that the Company expects to vest approximated \$2,448. The Company will recognize this expense over the upcoming three and one-fourth years through June 2019.

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

During the three-month period ended March 31, 2016, the Company recognized reductions in excess tax benefits related to stock-based compensation of \$76 and excess tax benefits of \$310 for the three-month period ended March 31, 2015. The change in excess income tax benefits have been included in cash flows from financing activities in the Condensed Consolidated Statements of Cash Flows.

Stock Option Awards

At March 31, 2016, there were no outstanding and exercisable stock options. During the first quarter of 2015, the remaining 7,500 outstanding stock options were exercised at a weighted average exercise price of \$9.08. There were no new grants of stock option awards during the

three-month periods ended March 31, 2016 and 2015.

Table of Contents**Restricted Stock Awards and Performance Unit Awards**

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

During the quarter ended March 31, 2016, the Compensation Committee approved the 2016 Performance Share Unit Program, the Executive Annual Incentive Compensation Plan (consisting of cash and equity components) and the 2016 Free Cash Flow Program (cash award only). The Compensation Committee also certified the actual performance achievement of participants in the 2013 Performance Share Unit Program. Actual performance resulted in no payout relative to the target performance metrics.

The following table summarizes the restricted stock award and performance unit award activity for the period ended March 31, 2016:

| | Restricted Stock Units | Performance Stock Units | Weighted Average Grant Date Fair Value |
|--|------------------------------|----------------------------|--|
| Outstanding at December 31, 2015 | 93,817 | 35,999 | \$ 39.66 |
| Granted | 43,283 | 129,844 | 12.59 |
| Vested | (35,953) | | 29.45 |
| Adjustment for incentive awards not expected to vest | | (93,103) | 24.79 |
| Canceled | (5,021) | (9,050) | 17.14 |
| Outstanding at March 31, 2016 | 96,126 | 63,690 | \$ 22.67 |

12. RETIREMENT PLANS**Retirement Plans**

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

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

Table of Contents**United States Defined Benefit Plans**

Net periodic pension costs for the United States defined benefit pension plans for the three-month periods ended March 31, 2016 and 2015 are as follows:

| | Three Months Ended March 31, | |
|----------------------------------|---------------------------------|--------------|
| | 2016 | 2015 |
| Service cost | \$ 9 | \$ 10 |
| Interest cost | 186 | 185 |
| Expected return on plan assets | (179) | (204) |
| Recognized net actuarial loss | 69 | 69 |
| Net periodic pension cost | \$ 85 | \$ 60 |

The Company does not expect to contribute to its United States defined benefit plans in 2016.

United Kingdom Defined Benefit Plans

Net periodic pension costs for the United Kingdom defined benefit pension plan for the three-month periods ended March 31, 2016 and 2015 are as follows:

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------|
| | 2016 | 2015 |
| Interest cost | \$ 75 | \$ 76 |
| Expected return on plan assets | (84) | (83) |
| Amortization of prior service costs and transition amount | 5 | 5 |
| Recognized net actuarial loss | 39 | 58 |
| Net periodic pension cost | \$ 35 | \$ 56 |

United Kingdom regulations require trustees to adopt a prudent approach to funding required contributions to defined benefit pension plans. Employer contributions of approximately \$270 are anticipated to the United Kingdom L.B. Foster Rail Technologies, Inc. pension plan during 2016. For the three months ended March 31, 2016, the Company contributed approximately \$70 to the plan.

Defined Contribution Plans

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

| | March 31, | |
|----------------|-----------|--------|
| | 2016 | 2015 |
| United States | \$ 691 | \$ 682 |
| Canada | 50 | 59 |
| United Kingdom | 58 | 83 |
| | \$ 799 | \$ 824 |

Table of Contents**13. COMMITMENTS AND CONTINGENT LIABILITIES****Product Liability Claims**

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

| | Warranty Liability |
|---------------------------------|--------------------|
| Balance at December 31, 2015 | \$ 8,755 |
| Additions to warranty liability | 269 |
| Warranty liability utilized | (293) |
| Balance at March 31, 2016 | \$ 8,731 |

Included within the above table are concrete tie warranty reserves of approximately \$7,461 and \$7,544 as of March 31, 2016 and December 31, 2015, respectively.

Union Pacific Railroad (UPRR) Concrete Tie Matter**UPRR Warranty Claims**

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

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

2012

During 2012, the Company completed sufficient testing and analysis to further understand this matter. Based upon testing results and expert analysis, the Company believed it discovered conditions, which largely related to the 2006 to 2007 manufacturing period, that can shorten the life of the concrete ties produced during this period. During the fourth quarter of 2012 and first quarter of 2013, the Company reached agreement with UPRR on several matters including a process for the Company and UPRR to work together to identify, prioritize, and replace defective ties that meet the criteria for replacement. This process applies to the ties the Company shipped to UPRR from its Grand Island, NE facility from 1998 to 2011. During most of this period the Company's warranty policy for UPRR carried a 5 year warranty with a 1.5:1 replacement ratio for any defective ties. In order to accommodate UPRR and other customer concerns, the Company also reverted to a previously used warranty policy providing a 15-year warranty with a 1:1 replacement ratio. This change provided an additional 10 years of warranty protection. In the amended 2005 supply agreement, the Company and UPRR also extended the supply of Tucson ties by five years and agreed on a cash payment of \$12,000 to UPRR as compensation for concrete ties already replaced by UPRR during the investigation period.

During 2012, as a result of the testing that the Company conducted on concrete ties manufactured at its former Grand Island, NE facility and the developments related to UPRR and other customer matters, the Company recorded pre-tax warranty charges of \$22,000 in Cost of Goods Sold within its Rail Products and Services segment based on the Company's estimate of the number of defective concrete ties that will ultimately

require replacement during the applicable warranty periods.

2013

Throughout 2013, at UPRR's request and under the terms of the amended 2005 supply agreement, the Company provided warranty replacement concrete ties for use across certain UPRR subdivisions. The Company attempted to reconcile the quantity of warranty claims for ties replaced and obtain supporting detail for the ties removed. The Company believes that UPRR did not replace concrete ties in accordance with the amended agreement and has not furnished adequate documentation throughout the replacement process in these subdivisions to

Table of Contents

support its full warranty claim. Based on the information received by the Company to date, the Company believes that a significant number of ties which UPRR replaced in these subdivisions did not meet the criteria to be covered as warranty replacement ties under the amended 2005 supply agreement. The disagreement related to the 2013 warranty replacement activity includes approximately 170,000 ties where the Company provided detailed documentation supporting our position with reason codes that detail why these ties are not eligible for a warranty claim.

In late November 2013, the Company received notice from UPRR asserting a material breach of the amended 2005 supply agreement. UPRR's notice asserted that the failure to honor its claims for warranty ties in these subdivisions was a material breach. Following receipt of this notice, the Company provided information to UPRR to refute UPRR's claim of breach and included the reconciliation of warranty claims supported by substantial findings from the Company's track observation team, all within the 90 day cure period. The Company also proposed further discussions to reach agreement on reconciliation for 2013 replacement activities and future replacement activities and a recommended process that will ensure future replacement activities are done with appropriate documentation and per the terms of the amended 2005 supply agreement.

2014

During the first quarter of 2014, the Company further responded within the 90 day cure period to UPRR's claim and presented a reconciliation for the subdivisions at issue. This proposed reconciliation was based on empirical data and visual observation from Company employees that were present during the replacement process for a substantial majority of the concrete ties replaced. The Company spent considerable time documenting facts related to concrete tie condition and track condition to assess whether the ties replaced met the criteria to be eligible for replacement under the terms of the amended 2005 supply agreement.

During 2014, the Company increased its accrual by an additional \$8,766 based on revised estimates of ties to be replaced based upon scientific testing and other analysis, adjusted for ties already provided to UPRR. The Company continued to work with UPRR to identify, replace, and reconcile defective ties related to the warranty claim in accordance with the amended 2005 supply agreement. The Company and UPRR met during the third quarter of 2014 to evaluate each other's position in an effort to work towards agreement on the unreconciled 2013 and 2014 replacement activity as well as the standards and practices to be implemented for future replacement activity and warranty tie replacement.

In November and December of 2014, the Company received additional notices from UPRR asserting that ties manufactured in 2000 were defective and again asserting material breaches of the amended 2005 supply agreement relating to warranty tie replacements as well as certain new ties provided to UPRR being out of specification.

As of December 31, 2014, the Company and UPRR had not been able to reconcile the disagreement related to the 2013 and 2014 warranty replacement activity. The disagreement relating to the 2014 warranty replacement activity includes approximately 90,100 ties that the Company believes are not warranty-eligible.

2015

On January 23, 2015, UPRR filed a Complaint and Demand for Jury Trial in the District Court for Douglas County, NE against the Company and its subsidiary, CXT, asserting, among other matters, that the Company breached its express warranty, breached an implied covenant of good faith and fair dealing, anticipatorily repudiated its warranty obligations, and that UPRR's exclusive and limited remedy provisions in the supply agreement have failed of their essential purpose which entitles UPRR to recover all incidental and consequential damages. The

Table of Contents

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

In June 2015, UPRR delivered an additional notice alleging defects in ties produced in the Company's Tucson and Spokane locations and other claimed material breaches which the Company contends are unfounded. The Company again responded to UPRR that it was not in material breach of the amended 2005 supply agreement relating to warranty tie replacements and that new ties being manufactured complied with the specifications provided by UPRR.

On June 16 and 17, 2015, UPRR issued formal notice of the termination of the concrete tie supply agreement as well as the termination of the lease agreement at the Tucson, AZ production facility and rejection and revocation of its prior acceptance of certain ties manufactured at the Company's Spokane, WA production facility. Since that time, UPRR has discontinued submitting purchase orders to the Company for shipment of warranty replacement ties.

On May 29, 2015, the Company and CXT filed an Answer, Affirmative Defenses and Counterclaims in response to the Complaint, denying liability to UPRR. As a result of UPRR's subsequent June 16-17, 2015 actions and certain related conduct, the Company on October 5, 2015 amended the pending Answer, Affirmative Defenses and Counterclaims to add, among other things, assertions that UPRR's conduct in question was wrongful and unjustified and constituted additional grounds for the affirmative defenses to UPRR's claims and also for the Company's counterclaims. By Scheduling Order dated September 3, 2015, a December 30, 2016 deadline for the completion of fact discovery has been established and trial may proceed at some future date after March 3, 2017, although no trial date has been set.

2016

During the first three months of 2016, there were no material changes to the UPRR matter and the parties continue conducting discovery. The Company continues to engage in discussions in an effort to resolve the UPRR matter. However, we cannot predict that such discussions will be successful, or that the results of the litigation with UPRR, or any settlement or judgment amounts will reasonably approximate our estimated accruals for loss contingencies. Future potential costs pertaining to UPRR's claims and the outcome of the UPRR litigation could result in a material adverse effect on our results of operations, financial condition, and cash flows.

Table of Contents**Environmental and Legal Proceedings**

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

As of March 31, 2016 and December 31, 2015, the Company maintained environmental reserves approximating \$6,612 and \$6,640, respectively. The following table sets forth the Company's environmental obligation:

| | Environmental liability |
|--|-------------------------|
| Balance at December 31, 2015 | \$ 6,640 |
| Additions to environmental obligations | 22 |
| Environmental obligations utilized | (50) |
| Balance at March 31, 2016 | \$ 6,612 |

The Company is also subject to other legal proceedings and claims that arise in the ordinary course of its business. 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.

14. INCOME TAXES

The Company's effective income tax rate for the three months ended March 31, 2016 and 2015 was 31.7% and 35.7%, respectively. The Company's effective tax rate for the three months ended March 31, 2016 differed from the federal statutory rate of 35% due to state income taxes, U.S. domestic production activities deductions, and operations in foreign jurisdictions with lower statutory tax rates.

Table of Contents

15. SUBSEQUENT EVENTS

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

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

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

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

General Overview

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

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

| | Three Months Ended | | Percent of Total Net Sales | | Percent Increase/ (Decrease) 2016 vs. 2015 |
|-----------------------------|--------------------|-------------------|----------------------------|----------------|--|
| | March 31, | | Three Months Ended | | |
| | 2016 | 2015 | 2016 | 2015 | |
| Net Sales: | | | | | |
| Rail Products and Services | \$ 64,292 | \$ 77,676 | 50.9 % | 56.3 % | (17.2)% |
| Construction Products | 31,880 | 34,290 | 25.2 | 24.9 | (7.0) |
| Tubular and Energy Services | 30,138 | 25,941 | 23.9 | 18.8 | 16.2 |
| Total net sales | \$ 126,310 | \$ 137,907 | 100.0 % | 100.0 % | (8.4)% |

| | Three Months Ended | | Gross Profit Percentage | | Percent Increase/ (Decrease) 2016 vs. 2015 |
|-----------------------------|--------------------|------------------|-------------------------|---------------|--|
| | March 31, | | Three Months Ended | | |
| | 2016 | 2015 | 2016 | 2015 | |
| Gross Profit: | | | | | |
| Rail Products and Services | \$ 13,941 | \$ 18,143 | 21.7 % | 23.4 % | (23.2)% |
| Construction Products | 5,574 | 6,562 | 17.5 | 19.1 | (15.1) |
| Tubular and Energy Services | 4,583 | 6,034 | 15.2 | 23.3 | (24.0) |
| LIFO income (expense) | 73 | (6) | 0.1 | | ** |
| Other | (211) | (80) | (0.2) | (0.1) | 163.8 |
| Total gross profit | \$ 23,960 | \$ 30,653 | 19.0 % | 22.2 % | (21.8)% |

| | Three Months Ended | | Percent of Total Net Sales | | Percent Increase/ (Decrease) 2016 vs. 2015 |
|--|--------------------|------------------|----------------------------|---------------|--|
| | March 31, | | Sales Three Months Ended | | |
| | 2016 | 2015 | 2016 | 2015 | |
| Expenses: | | | | | |
| Selling and administrative expenses | \$ 22,817 | \$ 22,251 | 18.1 % | 16.1 % | 2.5 % |
| Amortization expense | 3,266 | 2,157 | 2.6 | 1.6 | 51.4 |
| Interest expense | 1,170 | 613 | 0.9 | 0.4 | 90.9 |
| Interest income | (55) | (57) | (0.0) | (0.0) | (3.5) |
| Equity in loss (income) of nonconsolidated investments | 196 | (173) | 0.2 | (0.1) | ** |
| Other expense (income) | 715 | (803) | 0.6 | (0.6) | (189.0) |
| Total expenses | \$ 28,109 | \$ 23,988 | 22.3 % | 17.4 % | 17.2 % |
| (Loss) income before income taxes | \$ (4,149) | \$ 6,665 | (3.3)% | 4.8 % | (162.3)% |
| Income tax (benefit) expense | (1,317) | 2,380 | (1.0) | 1.7 | (155.3) |
| Net (loss) income | \$ (2,832) | \$ 4,285 | (2.3)% | 3.1 % | (166.1)% |

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

Table of Contents

First Quarter 2016 Compared to First Quarter 2015 – Company Analysis

Net sales of \$126,310 for the period ended March 31, 2016 decreased by \$11,597, or 8.4%, compared to the prior year quarter. The change was attributable to decreases of 17.2% and 7.0%, in Rail Products and Services and Construction Products segment sales, respectively. These decreases were offset by an increase of 16.2% within the Tubular and Energy Services segment.

Gross profit margin for the quarter ended March 31, 2016 was 19.0% or 326 basis points lower than the prior year quarter. The decrease was due to lower margins across each of the segments with the most significant reduction coming from the Energy and Tubular Services segment.

Selling and administrative expenses increased by \$566 or 2.5% from the prior year. The increase was primarily driven by \$1,300 costs from acquired businesses that were purchased in March 2015 and November 2015 and \$880 in litigation related costs for the UPRR matter. The additional costs were partially offset by \$1,600 in reductions to incentive compensation.

Amortization increased \$1,109, or 51.4%, and interest expense increased by \$557, or 90.9%, as a result of acquisitions and the related impact on outstanding debt. Other expense was \$715 compared to other income of \$803 during the prior year quarter which primarily related to the impact of a weaker U.S. dollar relative to the Canadian dollar in the current year.

The Company's effective income tax rate from continuing operations for the three-month period ended March, 31, 2016 was 31.7%, compared to 35.7% in the prior year quarter. The Company's effective income tax rate at March 31, 2016 differed from the federal statutory rate of 35% due to state income taxes, U.S. domestic production activities deductions, and operations in foreign jurisdictions with lower statutory tax rates. The decrease in the Company's effective income tax rate compared to the prior year quarter was primarily due to a more favorable projected global mix of income.

Net loss for the first quarter of 2016 was \$2,832, or \$0.28 per diluted share, compared to net income of \$4,285, or \$0.41 per diluted share, in the prior year quarter.

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

| | Three Months Ended March 31, | | Decrease 2016 vs. 2015 | Percent Decrease 2016 vs. 2015 |
|-------------------------|---------------------------------|-----------|---------------------------|--------------------------------------|
| | 2016 | 2015 | | |
| Net Sales | \$ 64,292 | \$ 77,676 | \$ (13,384) | (17.2)% |
| Gross Profit | \$ 13,941 | \$ 18,143 | \$ (4,202) | (23.2)% |
| Gross Profit Percentage | 21.7 % | 23.4 % | (1.7)% | (7.3)% |

First Quarter 2016 Compared to First Quarter 2015

Rail Products and Services segment sales decreased \$13,384 or 17.2% compared to the prior year period. The decline related to reductions across our rail divisions, with the exception of transit product sales. The sales declines were primarily volume driven as we continued to see our customers tighten spending on infrastructure and maintenance. Additionally, due to the ongoing litigation with UPRR, our rail divisions experienced a decline in sales to UPRR of approximately \$6,800.

The Rail Products and Services segment produced a 21.7% gross profit percentage during the current quarter. The decline in profitability was primarily related to deleveraging as a result of volume reductions which was exacerbated by unfavorable product mix in the current year.

During the quarter, the Rail Products and Services segment had a reduction in new orders of 40.8% compared to the prior year period. Transit product sales experienced stronger order activity during the first quarter of 2016, however the remaining product lines experienced reductions relative to the prior year quarter. The Company anticipates continued challenges as rail customers react to significantly reduced car loadings.

Construction Products

| | Three Months Ended March 31, | | Decrease 2016 vs. 2015 | Percent Decrease 2016 vs. 2015 |
|-------------------------|---------------------------------|-----------|---------------------------|--------------------------------------|
| | 2016 | 2015 | | |
| Net Sales | \$ 31,880 | \$ 34,290 | \$ (2,410) | (7.0)% |
| Gross Profit | \$ 5,574 | \$ 6,562 | \$ (988) | (15.1)% |
| Gross Profit Percentage | 17.5 % | 19.1 % | (1.6)% | (8.4)% |

First Quarter 2016 Compared to First Quarter 2015

Construction Products segment sales decreased \$2,410, or 7.0% compared to the prior year period. The decrease relates to weaker sales within each of the divisions. The precast concrete product line had a reduction in sales of \$1,614 which negatively impacted each business profit margins due to the reduction in volumes and the unfavorable impact on overhead absorption. The fabricated bridge product line was slightly down in sales, however, due to the current project mix, the business experienced stronger profit margins compared to the prior year quarter. The net effect on the segment resulted in a gross profit percentage of 17.5%, or a 164 basis point reduction from the prior year quarter.

During the quarter, the Construction Products segment had a reduction in new orders of 9.3% compared to the prior year period. The decline relates to the piling and bridge product businesses. We are being challenged on pipe piling and H-piling orders within the piling products line due to increasingly competitive pricing influenced by lower steel prices. New orders within the fabricated bridge product line are being negatively impacted by a reduction in available projects due to weaker market conditions.

Table of Contents**Tubular and Energy Services**

| | Three Months Ended March 31, | | Increase (Decrease) 2016 vs. 2015 | Percent Increase/(Decrease) 2016 vs. 2015 |
|-------------------------|---------------------------------|-----------|---|---|
| | 2016 | 2015 | | |
| Net Sales | \$ 30,138 | \$ 25,941 | \$ 4,197 | 16.2 % |
| Gross Profit | \$ 4,583 | \$ 6,034 | \$ (1,451) | (24.0)% |
| Gross Profit Percentage | 15.2 % | 23.3 % | (8.1)% | (34.8)% |

First Quarter 2016 Compared to First Quarter 2015

Tubular and Energy Services segment sales increased \$4,197, or 16.2% compared to the prior year period. The increase related to \$2,760 from coated services and precision measurement products as well as \$1,589 from test and inspection services, partially offset by a reduction in sales of threaded pipe products. The growth in test and inspection sales is attributable to three months of revenue during 2016 compared to a partial month in 2015.

Tubular and Energy Services gross margins reduced by 806 basis points, which was directly impacted by our test and inspection services business which continues to be negatively impacted by the weakness in the upstream oil and gas market. While we continue to reduce costs and probe the market for sales opportunities, profit margins in the test and inspection services business will be challenged for the remainder of the year.

The Tubular and Energy Services segment had a reduction in new orders of 13.2% compared to the prior year period. Orders for coated products were down 43.8% due to a reduction in midstream oil and gas new project lettings.

Other**Segment Backlog**

Total Company backlog is summarized by business segment in the following table for the periods indicated:

| | Backlog | | |
|-----------------------------|-------------------|----------------------|-------------------|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| Rail Products and Services | \$ 74,917 | \$ 85,199 | \$ 124,114 |
| Construction Products | 56,991 | 45,371 | 75,449 |
| Tubular and Energy Services | 22,101 | 34,137 | 17,762 |
| Total Backlog | \$ 154,009 | \$ 164,707 | \$ 217,325 |

While a considerable portion of our business is backlog driven, certain product lines within the Rail Products and Services and Tubular and Energy Services segments are not driven by backlog and therefore have insignificant levels throughout the year.

Warranty

As of March 31, 2016, the Company maintained a total product warranty reserve of \$8,731 for its estimate of all potential product warranty claims. Of this total, \$7,461 reflects the current estimate of the Company's exposure for potential product warranty claims related to concrete tie production. While the Company believes this is a reasonable estimate of its potential contingencies related to identified concrete tie warranty matters, the Company may incur future charges associated with new customer claims or further development of information for existing customer claims. Thus, there can be no assurance that future potential costs pertaining to warranty claims will not have a material impact on the

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

Company's results of operations and financial condition. See Note 13 of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for additional information.

Table of Contents**Liquidity and Capital Resources**

Total debt was \$174,911 and \$168,754 as of March 31, 2016 and December 31, 2015, respectively.

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

The change in cash and cash equivalents for the periods ended March 31 are as follows:

| | March 31, | |
|--|-------------------|--------------------|
| | 2016 | 2015 |
| Net cash used by operating activities | \$ (5,107) | \$ (7,429) |
| Net cash used by investing activities | (3,603) | (193,662) |
| Net cash provided by financing activities | 5,504 | 189,137 |
| Effect of exchange rate changes on cash and cash equivalents | 777 | (2,520) |
| Net decrease in cash and cash equivalents | \$ (2,429) | \$ (14,474) |

Cash Flow from Operating Activities

During the current 2016 period, cash flows used by operating activities of \$5,107 compared to a use of \$7,429 during the prior year period. For the three months ended March 31, 2016, income, adjustments to income from operating activities, and dividends from the LB Pipe joint venture provided \$4,033 compared to \$9,082 in the 2015 period. Working capital and other assets and liabilities used \$9,140 in the current period compared to a use of \$16,511 in the prior year period.

The Company's calculation for days sales outstanding at March 31, 2016 was 49 days compared to 56 days at December 31, 2015 and we believe our receivables portfolio is strong.

Cash Flow from Investing Activities

Capital expenditures for the three months ended March 31, 2016 and 2015 were \$3,125 and \$4,466. The current year expenditures related to the Birmingham, AL inside diameter coating line upgrade and application development of the Company's new enterprise resource planning system. Expenditures for the three months ended March 31, 2015 related primarily to upgrades to the outside diameter coating line of the Birmingham, AL coated products facility as well as general plant and yard improvements across each segment. The Company also loaned \$575 to its LB Pipe JV as of March 31, 2016. During the three months ended March 31, 2015, the Company acquired Tew Holdings, LTD. (Tew) and IOS. The total purchase price of these acquisitions, net of cash acquired, was \$189,200 as of March 31, 2015.

Cash Flow from Financing Activities

During the three months ended March 31, 2016, the Company had an increase in outstanding debt of approximately \$6,160 primarily related to drawings against the revolving credit facility to fund working capital requirements. During the three months ended March 31, 2015, the Company had an increase in outstanding debt of approximately \$191,800 primarily related to drawings against the revolving credit facility to fund domestic acquisition activity. The Company withheld 11,838 and 19,820 shares for approximately \$168 and \$962 for the three-month periods ended March 31, 2016 and 2015, respectively, from employees to pay their withholding taxes in connection with the vesting of restricted stock awards. Cash outflows related to dividends were \$414 and \$416 for the periods ended March 31, 2016 and 2015, respectively.

Financial Condition

As of March 31, 2016, we had \$30,883 in cash and cash equivalents and a domestic credit facility with \$163,061 of availability while carrying \$174,911 in total debt. We believe this liquidity will provide the flexibility to operate the business in a prudent manner, continue to service our revolving debt facility, and weather a continued downturn in our markets.

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

Our priority continues to be short-term maturities and the preservation of our principal balances. Approximately \$29,107 of our cash and cash equivalents was held in non-domestic bank accounts, and is not available to fund domestic operations unless repatriated. It is management's intent to indefinitely reinvest such funds outside of the United States.

Borrowings under the March 13, 2015 Amended Credit Agreement will bear interest at rates based upon either the base rate or Euro-rate plus applicable margins. Applicable margins are dictated by the ratio of the Company's indebtedness less consolidated cash on hand to the Company's consolidated EBITDA, as defined in the underlying Amended Credit

Table of Contents

Agreement. The base rate is the highest of (a) PNC Bank's prime rate, (b) the Federal Funds Rate plus 0.50% or (c) the daily Euro-rate (as defined in the Amended Credit Agreement) plus 1.00%. The base rate and Euro-rate spreads range from 0.00% to 1.50% and 1.00% to 2.50%, respectively.

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

At March 31, 2016, the Company was in compliance with the Amended Credit Agreement's covenants. The Company anticipates working with its lenders to amend the Leverage Ratio definition during the second quarter to ensure continued compliance with the financial covenants. The Amended Credit Agreement matures on March 13, 2020.

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

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

To reduce the impact of interest rate changes on outstanding variable-rate debt, the Company entered into forward starting LIBOR-based interest rate swaps with notional values totaling \$50,000. The swaps will become effective in February 2017 at which point it will effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contract. At March 31, 2016, the swap liability was \$1,786 compared to \$196 as of December 31, 2015.

Critical Accounting Policies

The Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or method of its application, is generally accepted, management selects the principle or method that, in its opinion, is appropriate in the Company's specific circumstances. Application of these accounting principles requires management to reach opinions regarding 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 reached its opinions regarding the 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, 2015. A summary of the Company's critical accounting policies and estimates is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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, 2015 is included in the Liquidity and Capital Resources section of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. There were no material changes to these off-balance sheet arrangements during the current quarter. These arrangements provide the Company with increased flexibility relative to the utilization and investment of cash resources.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The Company does not purchase or hold any derivative financial instruments for trading purposes. It does enter into interest rate hedges to reduce the risk in the variability of interest rate fluctuations.

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

As of March 31, 2016, the Company recorded a current liability of \$1,786 related to its LIBOR-based interest rate swap agreements.

Foreign Currency Exchange Rate Risk

The Company is subject to exposures to changes in foreign currency exchange rates. The Company manages its exposure to changes in foreign currency exchange rates on firm sale and purchase commitments by entering into foreign currency forward contracts. The Company's risk management objective is to reduce its exposure to the effects of changes in exchange rates on these transactions over the duration of the transactions. The Company did not engage in foreign currency hedging transactions during the three-month period ended March 31, 2016.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

L.B. Foster Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a - 15(e) under the Securities and Exchange Act of 1934, as amended) as of March 31, 2016. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective such that the information required to be disclosed by the Company in reports filed under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

We are in the process of integrating the IOS Holdings, Inc. and Tew Plus, Ltd. businesses. We are analyzing, evaluating and, where necessary, implementing changes in controls and procedures relating to these businesses as the integration proceeds. Similarly, beginning April 1, 2016, we are transitioning certain product lines into a new enterprise resource planning (ERP) system. As such, the integration of recent acquisitions and ERP transition may result in additions or changes to our internal control over financial reporting. Otherwise, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

(Dollars in thousands, except share data)

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015. You should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on March 1, 2016, which could materially affect our business, financial condition, financial results, or future performance. The risks described in our Annual Report on Form 10-K and quarterly reports on Form 10-Q are not the only risks facing the Company. Additional risks and uncertainties not currently known or that we currently deem to be immaterial may also materially affect our business, financial condition, and/or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company's purchases of equity securities for the three-month period ended March 31, 2016 were as follows:

| | Total number of shares purchased (1) | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs (2) | Approximate dollar value of shares that may yet be purchased under the plans or programs |
|--------------------------------------|--|---------------------------------------|---|---|
| January 1, 2016 - January 31, 2016 | | \$ | | \$ 30,000 |
| February 1, 2016 - February 29, 2016 | 5,435 | 11.43 | | 30,000 |
| March 1, 2016 - March 31, 2016 | 6,403 | 16.57 | | 30,000 |
| Total | 11,838 | \$ 14.21 | | \$ 30,000 |

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

(2) On December 9, 2015, the Board of Directors authorized the repurchase of up to \$30,000 of the Company's common shares until December 31, 2017. This authorization became effective January 1, 2016.

Item 4. Mine Safety Disclosures

This item is not applicable to the Company.

Table of Contents

Item 6. Exhibits

All exhibits are incorporated herein by reference:

- *31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- *31.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- *32.0 Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
- *101.INS XBRL Instance Document.
- *101.SCH XBRL Taxonomy Extension Schema Document.
- *101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- *101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- *101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- *101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

* Exhibits marked with an asterisk are filed herewith.

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 4, 2016

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

Table of Contents

Index to Exhibits

All exhibits are incorporated herein by reference:

| Exhibit Number | Description |
|----------------|---|
| *31.1 | Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. |
| *31.2 | Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002. |
| *32.0 | Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101.INS | XBRL Instance Document. |
| *101.SCH | XBRL Taxonomy Extension Schema Document. |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

* Exhibits marked with an asterisk are filed herewith.