

FOSTER L B CO

Form 10-Q

July 31, 2018

FALSE2018-06-302018Q2FOSTER L B COAccelerated

Filer10,563,100fstr0000352825--12-310.010.0120,000,00020,000,00011,115,77911,115,77910,365,34510,340,576750,434775

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

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

for the quarterly period ended June 30, 2018

Or

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

for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-10436

**L.B. Foster Company**

(Exact name of Registrant as specified in its charter)

Pennsylvania 25-1324733

(State of Incorporation) (I. R. S. Employer Identification No.)

**415 Holiday Drive, Pittsburgh, Pennsylvania** **15220**

(Address of principal executive offices) (Zip Code)

**(412) 928-3400**

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

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

|                         |                            |                           |
|-------------------------|----------------------------|---------------------------|
| Large accelerated filer |                            | Accelerated filer         |
|                         | (Do not check if a         |                           |
| Non-accelerated filer   | smaller reporting company) | Smaller reporting company |
|                         |                            | Emerging growth company   |

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

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

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

| Class                          | Outstanding as of July 30, 2018 |
|--------------------------------|---------------------------------|
| Common Stock, Par Value \$0.01 | 10,563,100 Shares               |

L.B. FOSTER COMPANY AND SUBSIDIARIES  
INDEX

|                          | Page |
|--------------------------|------|
| <u>PART I.</u>           |      |
| <u>Financial</u>         |      |
| <u>Information</u>       |      |
| <u>Item 1. Financial</u> |      |
| <u>Statements</u>        |      |
| <u>(unaudited):</u>      |      |
| <u>Condensed</u>         |      |
| <u>Consolidated</u>      | 3    |
| <u>Balance Sheets</u>    |      |
| <u>Condensed</u>         |      |
| <u>Consolidated</u>      | 4    |
| <u>Statements of</u>     |      |
| <u>Operations</u>        |      |
| <u>Condensed</u>         |      |
| <u>Consolidated</u>      | 5    |
| <u>Statements of</u>     |      |
| <u>Comprehensive</u>     |      |
| <u>Income</u>            |      |
| <u>Condensed</u>         |      |
| <u>Consolidated</u>      | 6    |
| <u>Statements of</u>     |      |
| <u>Cash Flows</u>        |      |
| <u>Notes to</u>          |      |
| <u>Condensed</u>         |      |
| <u>Consolidated</u>      | 7    |
| <u>Financial</u>         |      |
| <u>Statements</u>        |      |
| <u>Item 2.</u>           |      |
| <u>Management's</u>      |      |
| <u>Discussion and</u>    |      |
| <u>Analysis of</u>       | 24   |
| <u>Financial</u>         |      |
| <u>Condition and</u>     |      |
| <u>Results of</u>        |      |
| <u>Operations</u>        |      |
| <u>Item 3.</u>           |      |
| <u>Quantitative and</u>  |      |
| <u>Qualitative</u>       | 35   |
| <u>Disclosures about</u> |      |
| <u>Market Risk</u>       |      |

|  |           |
|--|-----------|
| <u>Item 4. Controls and Procedures</u>                                     | <u>36</u> |
| <u>PART II. Other Information</u>  |           |
| <u>Item 1. Legal Proceedings</u>   | <u>37</u> |
| <u>Item 1A. Risk Factors</u>   | <u>37</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>37</u> |
| <u>Item 4. Mine Safety Disclosures</u>                                     | <u>37</u> |
| <u>Item 6. Exhibits</u>  | <u>38</u> |
| <u>Signature</u>   | <u>39</u> |

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)

|   | June 30,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>                               |                                 |                      |
| Current assets:                             |                                 |                      |
| Cash and cash equivalents                   | \$ 13,271                       | \$ 37,678            |
| Accounts receivable - net                   | 96,310                          | 76,582               |
| Inventories - net                           | 101,343                         | 97,543               |
| Prepaid income tax                          | 347                             | 188                  |
| Other current assets                        | 12,090                          | 9,120                |
| <b>Total current assets</b>                 | <b>223,361</b>                  | <b>221,111</b>       |
| Property, plant, and equipment - net        | 89,467                          | 96,096               |
| Other assets:                               |                                 |                      |
| Goodwill                                    | 19,566                          | 19,785               |
| Other intangibles - net                     | 53,675                          | 57,440               |
| Investments                                 | 159                             | 162                  |
| Other assets                                | 1,416                           | 1,962                |
| <b>TOTAL ASSETS</b>                         | <b>\$ 387,644</b>               | <b>\$ 396,556</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                                 |                      |
| Current liabilities:                        |                                 |                      |
| Accounts payable                            | \$ 73,667                       | \$ 52,404            |
| Deferred revenue                            | 12,221                          | 10,136               |
| Accrued payroll and employee benefits       | 10,007                          | 11,888               |
| Accrued warranty                            | 8,705                           | 8,682                |
| Current maturities of long-term debt        | 631                             | 656                  |
| Other accrued liabilities                   | 9,208                           | 9,764                |
| <b>Total current liabilities</b>            | <b>114,439</b>                  | <b>93,530</b>        |
| Long-term debt                              | 98,406                          | 129,310              |
| Deferred tax liabilities                    | 8,231                           | 9,744                |

|  |            |            |
|--|------------|------------|
| Other long-term liabilities  | 17,352     | 17,493     |
| Stockholders' equity:  |            |            |
| Common stock, par value \$0.01, authorized 20,000,000 shares; shares issued at June 30, 2018 and December 31, 2017, 11,115,779; shares outstanding at June 30, 2018 and December 31, 2017, 10,365,345 and 10,340,576, respectively | 111        | 111        |
| Paid-in capital  | 46,129     | 45,017     |
| Retained earnings  | 140,393    | 137,780    |
| Treasury stock - at cost, 750,434 and 775,203 common stock shares at June 30, 2018 and December 31, 2017, respectively   | (18,180)   | (18,662)   |
| Accumulated other comprehensive loss   | (19,237)   | (17,767)   |
| <b>Total stockholders' equity</b>  | 149,216    | 146,479    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | \$ 387,644 | \$ 396,556 |

*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 per share data)

|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2018                           | 2017       | 2018                         | 2017       |
|  | (Unaudited)                    |            | (Unaudited)                  |            |
| Sales of goods   | \$ 127,093                     | \$ 117,727 | \$ 218,904                   | \$ 215,356 |
| Sales of services                                      | 45,797                         | 27,133     | 76,440                       | 48,206     |
| Total net sales  | 172,890                        | 144,860    | 295,344                      | 263,562    |
| Cost of goods sold                                     | 105,846                        | 94,291     | 181,146                      | 173,692    |
| Cost of services sold                                  | 34,530                         | 22,833     | 59,656                       | 40,882     |
| Total cost of sales                                    | 140,376                        | 117,124    | 240,802                      | 214,574    |
| Gross profit   | 32,514                         | 27,736     | 54,542                       | 48,988     |
| Selling and administrative expenses                    | 23,368                         | 20,578     | 43,826                       | 39,805     |
| Amortization expense                                   | 1,775                          | 1,695      | 3,560                        | 3,454      |
| Interest expense                                       | 1,654                          | 2,181      | 3,612                        | 4,289      |
| Interest income  | (24)                           | (54)       | (95)                         | (110)      |
| Equity in (income) loss of nonconsolidated investments | —                              | (145)      | 3                            | 55         |
| Other expense (income)                                 | 128                            | (18)       | (480)                        | (13)       |
| Total expenses   | 26,901                         | 24,237     | 50,426                       | 47,480     |
| Income before income taxes                             | 5,613                          | 3,499      | 4,116                        | 1,508      |
| Income tax expense                                     | 673                            | 475        | 1,198                        | 906        |
| Net income   | \$ 4,940                       | \$ 3,024   | \$ 2,918                     | \$ 602     |
| Basic earnings per common share                        | \$ 0.48                        | \$ 0.29    | \$ 0.28                      | \$ 0.06    |
| Diluted earnings per common share                      | \$ 0.47                        | \$ 0.29    | \$ 0.28                      | \$ 0.06    |

*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 INCOME

(In thousands)

|   | Three Months Ended |          | Six Months Ended |          |
|---|--------------------|----------|------------------|----------|
|   | June 30,<br>2018   | 2017     | June 30,<br>2018 | 2017     |
|   | (Unaudited)        |          | (Unaudited)      |          |
| Net income  | \$ 4,940           | \$ 3,024 | \$ 2,918         | \$ 602   |
| Other comprehensive (loss) income, net of tax:  |                    |          |                  |          |
| Foreign currency translation adjustment   | (2,785)            | 2,228    | (2,761)          | 3,116    |
| Unrealized gain (loss) on cash flow hedges, net of tax expense of \$0 for all periods                     | 298                | (202)    | 1,036            | (201)    |
| Reclassification of pension liability adjustments to earnings, net of tax expense of \$0 for all periods* | 141                | 112      | 255              | 221      |
| Other comprehensive (loss) income   | (2,346)            | 2,138    | (1,470)          | 3,136    |
| Comprehensive income  | \$ 2,594           | \$ 5,162 | \$ 1,448         | \$ 3,738 |

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



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

5

---

Table of Contents

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

|  | Six Months Ended<br>June 30, |         |
|--|------------------------------|---------|
|  | 2018                         | 2017    |
|  | (Unaudited)                  |         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                              |         |
| Net income   | \$ 2,918                     | \$ 602  |
| Adjustments to reconcile net income to cash provided (used) by operating activities: |                              |         |
| Deferred income taxes  | (1,450)                      | (432)   |
| Depreciation   | 5,882                        | 6,527   |
| Amortization   | 3,560                        | 3,454   |
| Equity in loss of nonconsolidated investments  | 3                            | 55      |
| Loss on sales and disposals of property, plant, and equipment                        | 394                          | 122     |
| Stock-based compensation   | 1,904                        | 725     |
| Change in operating assets and liabilities   |                              |         |
| Accounts receivable  | (20,060)                     | (9,951) |
| Inventories  | (4,538)                      | (487)   |
| Other current assets   | (2,228)                      | (1,439) |
| Prepaid income tax   | (1,823)                      | 12,867  |
| Other noncurrent assets  | 460                          | 474     |
| Accounts payable   | 21,574                       | 19,534  |

|  |          |          |
|--|----------|----------|
| Deferred revenue   | 2,110    | (1,839)  |
| Accrued payroll and employee benefits                        | (1,831)  | 878      |
| Other current liabilities                                    | 1,145    | (1,167)  |
| Other long-term liabilities                                  | (118)    | (2)      |
| Net cash provided by operating activities                    | 7,902    | 29,921   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                 |          |          |
| Proceeds from the sale of property, plant, and equipment     | 2,086    | 143      |
| Capital expenditures on property, plant, and equipment       | (1,816)  | (4,597)  |
| Net cash provided by (used in) investing activities          | 270      | (4,454)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                 |          |          |
| Repayments of debt   | (99,925) | (82,553) |
| Proceeds from debt   | 68,995   | 60,972   |
| Treasury stock acquisitions                                  | (310)    | (97)     |
| Net cash used by financing activities                        | (31,240) | (21,678) |
| Effect of exchange rate changes on cash and cash equivalents | (1,339)  | 1,305    |

|   |           |             |
|---|-----------|-------------|
| Net (decrease)<br>increase in cash<br>and cash<br>equivalents | (24,407)  | 5,094       |
| Cash and cash<br>equivalents at<br>beginning of<br>period     | 37,678    | 30,363      |
| Cash and cash<br>equivalents at end<br>of period              | \$ 13,271 | \$ 35,457   |
| Supplemental<br>disclosure of cash<br>flow information:       |           |             |
| Interest paid   | \$ 3,347  | \$ 3,896    |
| Income taxes paid<br>(received)                               | \$ 3,304  | \$ (11,480) |

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

6

---

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 (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all estimates and adjustments (consisting of normal recurring accruals, unless otherwise stated herein) considered necessary for a fair presentation of the financial position of L.B. Foster Company and subsidiaries as of June 30, 2018 and December 31, 2017, its condensed consolidated statements of operations for the three and six months ended June 30, 2018 and 2017, and its statements of cash flows for the six months ended June 30, 2018 and 2017, have been included. However, actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The Condensed Consolidated Balance Sheet as of December 31, 2017 was derived from audited financial statements. This Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. In this Quarterly Report on Form 10-Q, references to “we,” “us,” “our,” and the “Company” refer collectively to L.B. Foster Company and its consolidated subsidiaries.

*Assets Held for Sale*

The Company classifies assets as held for sale when management approves and commits to a formal plan of sale with the expectation the sale will be completed within one year. The net assets of the assets held for sale are then recorded at the lower of their current carrying value or the fair market value, less costs to sell. See Note 8. Investments of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for additional information.

*Recently Issued Accounting Standards*

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

In February 2018, the FASB issued ASU 2018-02, “Income Statement – Reporting Comprehensive Income” (“ASU 2018-02”), that will permit companies the option to reclassify stranded tax effects caused by the newly-enacted US Tax Cuts and Jobs Act (the “Tax Act”) from accumulated other comprehensive income to retained earnings. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. Adoption of the ASU will be optional and a

company will need to disclose if it elects not to adopt the ASU. The ASU will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption will be permitted, including adoption in any interim period, for financial statements that have not yet been issued or made available for issuance. Entities will have the option to apply the amendments retrospectively or to record the reclassification as of the beginning of the period of adoption. The Company is evaluating the impact of ASU 2018-02 on its financial position and whether or not it will choose to adopt the ASU.

*Recently Adopted Accounting Standards*

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, "Revenue Recognition" ("ASC 605"). ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

7

---

Table of Contents

It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue, cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted the provisions of ASU 2014-09 on January 1, 2018, using the modified retrospective approach. Revenue from the Company's product and service sales continue to be recognized when products are shipped or services are rendered. Revenue from the Company's product and service sales provided under long-term agreements is recognized as the Company transfers control of the product or service to its customers, which approximates the previously used percentage-of-completion method of accounting. The adoption of ASU 2014-09 had no material effect on the Company's financial position, results of operations, cash flows, or backlog, and no adjustment to January 1, 2018 opening retained earnings was needed. The Company has presented the disclosures required by ASC 606, "Revenue from Contracts with Customers" ("ASC 606") in Note 3. Revenue of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

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

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

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

*Reclassifications and Disclosures*

Certain amounts in previously issued financial statements have been reclassified to conform to the current period presentation. These reclassifications represent the change in allocated corporate expenses as disclosed in Note 2. Business Segments and the adoption of ASC 606 disclosed in Note 3. Revenue, Note 5. Accounts Receivable, and Note 6. Inventories of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

**2. BUSINESS SEGMENTS**

The Company is a leading manufacturer and distributor of products and services for transportation and energy infrastructure with locations in North America and Europe. The Company is organized and operates in three different operating segments: the Rail Products and Services segment, the Construction Products segment, and the Tubular and

Energy Services segment. The segments represent components of the Company (a) that engage in activities from which revenue is generated and expenses are incurred; (b) whose operating results are regularly reviewed by the Chief Operating Decision Maker (“CODM”), who makes decisions about resources to be allocated to the segments, and (c) for which discrete financial information is available. Operating segments are evaluated on their segment profit (loss) contribution to the Company's consolidated results. Other income and expenses, interest, income taxes, and certain other items are managed on a consolidated basis. The Company's segment accounting policies, unless otherwise noted, are the same as those described in the Note 2. Business Segments of the Notes to the Company's Consolidated Financial Statements contained in its Annual Report on Form 10-K for the year-ended December 31, 2017.

8

---



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

Table of Contents

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

|                             | Three Months Ended<br>June 30, 2018 |                       | Six Months Ended<br>June 30, 2018 |                       |
|-----------------------------|-------------------------------------|-----------------------|-----------------------------------|-----------------------|
|                             | Net Sales                           | Segment Profit        | Net Sales                         | Segment Profit        |
| Rail Products and Services  | \$ 91,884                           | \$ 5,308              | \$ 154,054                        | \$ 7,356              |
| Construction Products       | 42,207                              | 2,857                 | 71,107                            | 2,875                 |
| Tubular and Energy Services | 38,799                              | 4,545                 | 70,183                            | 6,430                 |
| Total                       | \$ 172,890                          | \$ 12,710             | \$ 295,344                        | \$ 16,661             |
|                             | Three Months Ended<br>June 30, 2017 |                       | Six Months Ended<br>June 30, 2017 |                       |
|                             | Net Sales                           | Segment Profit (Loss) | Net Sales                         | Segment Profit (Loss) |
| Rail Products and Services  | \$ 69,347                           | \$ 3,579              | \$ 125,827                        | \$ 4,402              |
| Construction Products       | 45,465                              | 5,105                 | 82,787                            | 6,771                 |
| Tubular and Energy Services | 30,048                              | (126)                 | 54,948                            | (806)                 |
| Total                       | \$ 144,860                          | \$ 8,558              | \$ 263,562                        | \$ 10,367             |

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

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

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

|                                | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|--------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                | 2018                           | 2017     | 2018                         | 2017      |
| Profit for reportable segments | \$ 12,710                      | \$ 8,558 | \$ 16,661                    | \$ 10,367 |
| Interest expense               | (1,654)                        | (2,181)  | (3,612)                      | (4,289)   |

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

|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Interest income  | 24       | 54       | 95       | 110      |
| Other (expense) income                                       | (128)    | 18       | 480      | 13       |
| LIFO expense   | (549)    | (192)    | (713)    | (181)    |
| Equity in income (loss) of nonconsolidated investments       | —        | 145      | (3)      | (55)     |
| Unallocated corporate expenses and other unallocated charges | (4,790)  | (2,903)  | (8,792)  | (4,457)  |
| Income before income taxes                                   | \$ 5,613 | \$ 3,499 | \$ 4,116 | \$ 1,508 |

The following table illustrates assets of the Company by segment:

|                              | June 30,<br>2018 | December 31,<br>2017 |
|------------------------------|------------------|----------------------|
| Rail Products and Services   | \$ 183,072       | \$ 192,038           |
| Construction Products        | 85,477           | 83,154               |
| Tubular and Energy Services  | 96,186           | 100,706              |
| Unallocated corporate assets | 22,909           | 20,658               |
| Total                        | \$ 387,644       | \$ 396,556           |

Table of Contents**3. REVENUE**

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

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

The Company's performance obligations under long-term agreements with its customers are generally satisfied as over time. Revenue from products or services transferred to customers over time accounted for 23.4% and 22.7% of revenue for the three months ended June 30, 2018 and 2017, respectively, and 24.3% and 22.9% of revenue for the six months ended June 30, 2018 and 2017, respectively. Revenue under these long-term agreements is generally recognized over time either using an input measure based upon the proportion of actual costs incurred to estimated total project costs or an input measure based upon actual labor costs as a percentage of estimated total labor costs, depending upon which measure the Company believes best depicts the Company's performance to date under the terms of the contract. Revenue recognized over time using an input measure was \$29,583 and \$19,835 for the three months ended June 30, 2018 and 2017, respectively, and was \$54,144 and \$41,445 for the six months ended June 30, 2018 and 2017, respectively. A certain portion of the Company's revenue recognized over time under these long-term agreements is recognized using an output method, specifically units delivered, based upon certain customer acceptance and delivery requirements. Revenue recognized over time using an output measure was \$10,893 and \$13,049 for the three months ended June 30, 2018 and 2017, respectively, and was \$17,554 and \$19,012 for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and December 31, 2017, the Company had contract assets of \$29,247 and \$25,320, respectively, that were recorded in inventory within the Condensed Consolidated Balance Sheets. At June 30, 2018 and December 31, 2017, the Company had contract liabilities of \$3,035 and \$1,420, respectively, that were recorded in deferred revenue within the Condensed Consolidated Balance Sheets.

Accounting for these long-term agreements involves the use of various techniques to estimate total revenues and costs. The Company estimates profit on these long-term agreements as the difference between total estimated revenues and expected costs to complete a contract and recognizes that profit over the life of the contract. Contract estimates are based on various assumptions to project the outcome of future events that may span several years. These assumptions include, among other things, labor productivity, cost and availability of materials, and timing of funding by customers. The nature of these long-term agreements may give rise to several types of variable consideration, such as claims, awards, and incentive fees. Historically, these amounts of variable consideration have not been considered significant. Contract estimates may include additional revenue for submitted contract modifications if there exists an enforceable right to the modification, the amount can be reasonably estimated, and its realization is probable. These estimates are based on historical collection experience, anticipated performance, and the Company's best judgment at that time. These amounts are generally included in the contract's transaction price and are allocated over the remaining performance obligations. Changes in judgments related to the estimates above could impact the timing and amount of revenue recognized and, accordingly, the timing and amount of associated income. In the event a contract loss

becomes known, the entire amount of the estimated loss is recognized in the Condensed Consolidated Statements of Operations.

The majority of the Company's revenue is from products and services transferred to customers at a point in time, which accounted for approximately 76.6% and 77.3% of revenue for the three months ended June 30, 2018 and 2017, respectively. Revenue from products and services transferred to customers at a point in time accounted for approximately 75.7% and 77.1% of revenue for the six months ended June 30, 2018 and 2017, respectively. The Company recognizes revenue at the point in time in which the customer obtains control of the product or service, which is generally when product title passes to the customer upon shipment or the service has been rendered to the customer. In limited cases, title does not transfer and revenue is not recognized until the customer has received the products at its physical location.

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

Table of Contents

The following table summarizes the Company's net sales by major product category:

|   | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30,<br>2018   | 2017       | June 30,<br>2018 | 2017       |
| Rail Products                                 | \$ 54,332          | \$ 44,399  | \$ 90,366        | \$ 78,764  |
| Rail Technologies                             | 37,552             | 24,948     | 63,688           | 47,063     |
| Rail Products and Services                    | 91,884             | 69,347     | 154,054          | 125,827    |
| Piling and Fabricated Bridge                  | 25,846             | 29,607     | 44,707           | 58,830     |
| Precast Concrete Products                     | 16,361             | 15,858     | 26,400           | 23,957     |
| Construction Products                         | 42,207             | 45,465     | 71,107           | 82,787     |
| Test, Inspection, and Threading               | 15,008             | 13,050     | 29,221           | 23,932     |
| Protective Coatings and Measurement Solutions | 23,791             | 16,998     | 40,962           | 31,016     |
| Tubular and Energy Services                   | 38,799             | 30,048     | 70,183           | 54,948     |
| Total net sales                               | \$ 172,890         | \$ 144,860 | \$ 295,344       | \$ 263,562 |

Net sales by the timing of the transfer of goods and services is as follows:

| Three Months Ended June 30, 2018 | Rail Products and Services | Construction Products | Tubular and Energy Services | Total      |
|----------------------------------|----------------------------|-----------------------|-----------------------------|------------|
| Point in time                    | \$ 69,295                  | \$ 28,196             | \$ 34,923                   | \$ 132,414 |
| Over time                        | 22,589                     | 14,011                | 3,876                       | 40,476     |
| Total net sales                  | \$ 91,884                  | \$ 42,207             | \$ 38,799                   | \$ 172,890 |
| Three Months Ended June 30,      | Rail Products and Services | Construction Products | Tubular and Energy Services | Total      |

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

2017

|                 |           |           |           |            |
|-----------------|-----------|-----------|-----------|------------|
| Point in time   | \$ 57,098 | \$ 28,766 | \$ 26,112 | \$ 111,976 |
| Over time       | 12,249    | 16,699    | 3,936     | 32,884     |
| Total net sales | \$ 69,347 | \$ 45,465 | \$ 30,048 | \$ 144,860 |

Six Months Ended June 30, 2018

|                 | Rail Products and Services | Construction Products | Tubular and Energy Services | Total      |
|-----------------|----------------------------|-----------------------|-----------------------------|------------|
| Point in time   | \$ 115,166                 | \$ 47,122             | \$ 61,358                   | \$ 223,646 |
| Over time       | 38,888                     | 23,985                | 8,825                       | 71,698     |
| Total net sales | \$ 154,054                 | \$ 71,107             | \$ 70,183                   | \$ 295,344 |

Six Months Ended June 30, 2017

|                 | Rail Products and Services | Construction Products | Tubular and Energy Services | Total      |
|-----------------|----------------------------|-----------------------|-----------------------------|------------|
| Point in time   | \$ 102,664                 | \$ 53,390             | \$ 47,051                   | \$ 203,105 |
| Over time       | 23,163                     | 29,397                | 7,897                       | 60,457     |
| Total net sales | \$ 125,827                 | \$ 82,787             | \$ 54,948                   | \$ 263,562 |

The timing of revenue recognition, billings, and cash collections results in billed receivables, costs in excess of billings (contract assets, included in inventory), and billings in excess of costs (contract liabilities, included in deferred revenue) on the Condensed Consolidated Balance Sheets.

Significant changes in contract assets during the six months ended June 30, 2018 include transfers to receivables from contract assets recognized at the beginning of the period of \$10,872. Significant changes in contract liabilities during the six months ended June 30, 2018 include \$740 of revenue recognized that was included in the contract liability at the beginning of the period, and increases of \$2,488 due to billings in excess of costs, excluding amounts recognized as revenue during the period.

As of June 30, 2018, the Company has approximately \$231,252 of remaining performance obligations, which is also referred to as backlog. Approximately 11.7% of the June 30, 2018 backlog is related to projects that are anticipated to extend beyond June 30, 2019.

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

The following table presents the goodwill balance by reportable segment:

|  | Rail Products and<br>Services | Construction<br>Products | Tubular and<br>Energy<br>Services | Total     |
|--|-------------------------------|--------------------------|-----------------------------------|-----------|
| Balance at<br>December<br>31, 2017           | \$ 14,638                     | \$ 5,147                 | \$ —                              | \$ 19,785 |
| Foreign<br>currency<br>translation<br>impact | (219)                         | —                        | —                                 | (219)     |
| Balance at<br>June 30,<br>2018               | \$ 14,419                     | \$ 5,147                 | \$ —                              | \$ 19,566 |

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 interim goodwill impairment test was required in connection with the evaluation of qualitative factors for the six months ended June 30, 2018. The Company continues to monitor the recoverability of the long-lived assets associated with certain reporting units of the Company and their long-term financial projections. Sustained declines in the markets we serve may result in future long-lived asset impairment.

The following table represents the gross balances of other intangible asset by reportable segment:

|                                   | June 30,<br>2018 | December 31,<br>2017 |
|-----------------------------------|------------------|----------------------|
| Rail Products<br>and Services*    | \$ 57,321        | \$ 57,654            |
| Construction<br>Products          | 1,348            | 1,348                |
| Tubular and<br>Energy<br>Services | 29,179           | 29,179               |
|                                   | \$ 87,848        | \$ 88,181            |

\* Gross balances include the impact of foreign currency translation adjustments.

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

|                             | June 30, 2018 |          | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|-----------------------------|---------------|----------|-----------------------------|---------------------------|
| Non-competite<br>agreements | 5             | \$ 4,224 | \$ (3,539)                  | \$ 685                    |

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

|                            |    |           |             |           |
|----------------------------|----|-----------|-------------|-----------|
| Patents                    | 10 | 372       | (164)       | 208       |
| Customer relationships     | 17 | 37,458    | (10,312)    | 27,146    |
| Trademarks and trade names | 14 | 10,067    | (4,504)     | 5,563     |
| Technology                 | 14 | 35,727    | (15,654)    | 20,073    |
|                            |    | \$ 87,848 | \$ (34,173) | \$ 53,675 |

December 31, 2017

|                            | Weighted Average Amortization Period In Years | Gross Carrying Value | Accumulated Amortization | Net Carrying Amount |
|----------------------------|---|----------------------|--------------------------|---------------------|
| Non-compete agreements     | 5   | \$ 4,238             | \$ (3,100)               | \$ 1,138            |
| Patents                    | 10  | 389                  | (164)                    | 225                 |
| Customer relationships     | 17  | 37,679               | (9,171)                  | 28,508              |
| Trademarks and trade names | 14  | 10,085               | (4,091)                  | 5,994               |
| Technology                 | 14  | 35,790               | (14,215)                 | 21,575              |
|                            |   | \$ 88,181            | \$ (30,741)              | \$ 57,440           |

Intangible assets are amortized over their useful lives, which range from 4 to 25 years, with a total weighted average amortization period of approximately 15 years at June 30, 2018. Amortization expense for the three months ended June 30, 2018 and 2017 was \$1,775 and \$1,695, respectively. Amortization expense for the six months ended June 30, 2018 and 2017 was \$3,560 and \$3,454, respectively.



Table of Contents

Estimated amortization expense for the remainder of 2018 and thereafter is as follows:

|                     | Amortization Expense |        |
|---------------------|----------------------|--------|
| 2018                | \$                   | 3,448  |
| 2019                |                      | 6,280  |
| 2020                |                      | 5,959  |
| 2021                |                      | 5,939  |
| 2022                |                      | 5,888  |
| 2023 and thereafter |                      | 26,161 |
|                     | \$                   | 53,675 |

**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 June 30, 2018 and December 31, 2017 have been reduced by an allowance for doubtful accounts of \$1,570 and \$2,151, respectively. Reserves for uncollectable accounts are recorded as part of selling and administrative expenses in the Condensed Consolidated Statements of Operations, and were income of \$473 and expense of \$54 for the three months ended June 30, 2018 and 2017, respectively. Reserves for uncollectable accounts were income of \$719 and expense of \$529 for the six months ended June 30, 2018 and 2017, respectively.

**6. INVENTORIES**

Inventories at June 30, 2018 and December 31, 2017 are summarized in the following table:

|                                    | June 30,<br>2018 | December 31,<br>2017 |
|------------------------------------|------------------|----------------------|
| Finished goods                     | \$ 48,580        | \$ 55,846            |
| Contract assets                    | 29,247           | 25,320               |
| Work-in-process                    | 9,852            | 4,059                |
| Raw materials                      | 19,564           | 17,505               |
| Total inventories at current costs | 107,243          | 102,730              |
| Less: LIFO reserve                 | (5,900)          | (5,187)              |
|                                    | \$ 101,343       | \$ 97,543            |

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 net realizable value, 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. Prior to the adoption of ASU 2014-09, contract assets were classified within work-in-process inventory.

**7. PROPERTY, PLANT, AND EQUIPMENT**

Property, plant, and equipment at June 30, 2018 and December 31, 2017 consisted of the following:

|                          | June 30,<br>2018 | December 31,<br>2017 |
|--------------------------|------------------|----------------------|
| Land                     | \$ 12,539        | \$ 14,869            |
| Improvements to land and | 17,482           | 17,415               |

|   |           |           |
|---|-----------|-----------|
| leaseholds  |           |           |
| Buildings   | 34,752    | 34,929    |
| Machinery and equipment, including equipment under capitalized leases                                     | 120,776   | 120,806   |
| Construction in progress  | 2,031     | 1,057     |
|   | 187,580   | 189,076   |
| Less: accumulated depreciation and amortization, including accumulated amortization of capitalized leases | (98,113)  | (92,980)  |
|   | \$ 89,467 | \$ 96,096 |

We review our property, plant, and equipment for recoverability whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. We recognize an impairment loss if the carrying amount of a long-lived asset is not

Table of Contents

recoverable and exceeds its fair value. There were no asset impairments of property, plant, and equipment during the six months ended June 30, 2018.

During the three months ended June 30, 2018, the Company sold 54.5 acres of land in exchange for cash proceeds of \$2,047, resulting in a loss of \$269. Depreciation expense for the three months ended June 30, 2018 and 2017 was \$2,938 and \$3,245, respectively. Depreciation expense for the six months ended June 30, 2018 and 2017 was \$5,882 and \$6,527, respectively.

**8. INVESTMENTS**

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

During the quarter ended September 30, 2017, pursuant to the limited liability company agreement, the Company determined to sell its 45% ownership interest to the other 45% equity holder. The Company concluded that it had met the criteria under applicable guidance for a long-lived asset to be held for sale, and, accordingly, reclassified its L B Pipe JV investment of \$4,288 as a current asset held for sale within other current assets. The asset was subsequently remeasured to its fair market value of \$3,875. The difference between the fair market value and the Company's carrying amount of \$413 was recorded as an other-than-temporary impairment during 2017.

At June 30, 2018 and December 31, 2017, the Company had a nonconsolidated equity method investment of \$159 and \$162, respectively.

The Company recorded equity in the income of L B Pipe JV of \$0 and \$150 for the three months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018 and 2017, the Company recorded equity in the loss of L B Pipe JV of \$0 and \$48, respectively.

During 2016, the Company and the other 45% member each executed a revolving line of credit with L B Pipe JV with an available limit of \$1,350. The Company and the other 45% member each loaned \$1,235 to L B Pipe JV in an effort to maintain compliance with L B Pipe JV's debt covenants with an unaffiliated bank. The Company is to receive its outstanding loan balance, including accrued interest, at the 45% equity holder sale date.

The Company's exposure to loss results from its capital contributions and loans, net of the Company's share of L B Pipe JV's income or loss, and its net investment in the direct financing lease covering the facility used by L B Pipe JV for its operations, which is described below.

The carrying amounts with the Company's maximum exposure to loss at June 30, 2018 and December 31, 2017, respectively, are as follows:

|  | June 30,<br>2018 | December 31,<br>2017 |
|--|------------------|----------------------|
| L B Pipe JV investment                   | \$ 3,875         | \$ 3,875             |
| Revolving line of credit                 | 1,235            | 1,235                |
| Net investment in direct financing lease | 644              | 735                  |

\$ 5,754 \$ 5,845

The Company is leasing five acres of land and two facilities to L B 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 2018 and the year 2019:

|      | Minimum Lease Payments |     |
|------|------------------------|-----|
| 2018 | \$                     | 77  |
| 2019 |                        | 567 |
|      | \$                     | 644 |

Table of Contents**9. LONG-TERM DEBT****North America**

Long-term debt consisted of the following:

|   | June 30,<br>2018 |    | December 31,<br>2017 |
|---|------------------|----|----------------------|
| Revolving credit facility               | \$ 97,867        | \$ | 128,470              |
| Capital leases and financing agreements | 1,170            |    | 1,496                |
| Total                                   | 99,037           |    | 129,966              |
| Less current maturities                 | 631              |    | 656                  |
| Long-term portion                       | \$ 98,406        | \$ | 129,310              |

On November 7, 2016, the Company, its domestic subsidiaries, and certain of its Canadian subsidiaries entered into the Second Amendment (the “Second Amendment”) to the Second Amended and Restated Credit Agreement dated March 13, 2015 and as amended by the First Amendment dated June 29, 2016 (the “Amended and Restated 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 Second Amendment modified the Amended and Restated Credit Agreement, which had a maximum revolving credit line of \$275,000. The Second Amendment reduced the permitted revolving credit borrowings to \$195,000 and provided for additional term loan borrowing of \$30,000 (the “Term Loan”). During 2017, the Company paid off the balance of the Term Loan. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Second Amendment or Amended and Restated Credit Agreement filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as applicable.

The Second Amendment further provided for modifications to the financial covenants as defined in the Amended and Restated Credit Agreement. The Second Amendment calls for the elimination of the Maximum Leverage Ratio covenant through the quarter ended June 30, 2018. After that period, the Maximum Gross Leverage Ratio covenant will be reinstated to require a maximum ratio of 4.25 Consolidated Indebtedness to 1.00 Gross Leverage for the quarter ending September 30, 2018, and 3.75 to 1.00 for all periods thereafter until the maturity date of the credit facility. The Second Amendment also includes a Minimum Last Twelve Months EBITDA covenant (“Minimum EBITDA”). For the quarter ended December 31, 2016 through the quarter ended June 30, 2017, the Minimum EBITDA had to be at least \$18,500. For each quarter thereafter, through the quarter ended June 30, 2018, the Minimum EBITDA requirement increased by various increments. At June 30, 2018, the Minimum EBITDA requirement was \$31,000. After the quarter ended June 30, 2018, the Minimum EBITDA covenant was eliminated through the remainder of the Amended and Restated Credit Agreement. The Second Amendment also includes a Minimum Fixed Charge Coverage Ratio covenant. The covenant represents the ratio of the Company's fixed charges to the last twelve months of EBITDA, and is required to be a minimum of 1.00 to 1.00 through the quarter ended December 31, 2017 and 1.25 to 1.00 for each quarter thereafter through the maturity of the credit facility. The final financial covenant included in the Second Amendment was a Minimum Liquidity covenant which called for a minimum of \$25,000 in undrawn availability on the revolving credit loan at all times through the quarter ended June 30, 2018.

The Second Amendment includes several changes to certain non-financial covenants as defined in the Amended and Restated Credit Agreement. Through the maturity date of the loan, the Company is prohibited from making any future acquisitions. The limitation on permitted annual distributions of dividends or redemptions of the Company's stock was decreased from \$4,000 to \$1,700. The aggregate limitation on loans to and investments in non-loan parties was

decreased from \$10,000 to \$5,000. Furthermore, the limitation on asset sales has been decreased from \$25,000 annually with a carryover of up to \$15,000 from the prior year to \$25,000 in the aggregate through the maturity date of the credit facility.

At June 30, 2018, L.B. Foster was in compliance with the Second Amendment's covenants.

The Second Amendment provided for the elimination of the three lowest tiers of the pricing grid that had previously been defined in the First Amendment. Upon execution of the Second Amendment through the quarter ended March 31, 2018, the Company was locked into the highest tier of the pricing grid, which provided for pricing of the prime rate plus 225 basis points on base rate loans and the applicable LIBOR rate plus 325 basis points on euro rate loans. For each quarter after March 31, 2018 and through the maturity date of the credit facility, the Company's position on the pricing grid is governed by a Minimum Net Leverage ratio, which is the ratio of Consolidated Indebtedness less cash on hand in excess of \$15,000 to EBITDA. If, after March 31, 2018, the Minimum Net Leverage ratio positions the Company on the lowest tier of the pricing grid, pricing will be the prime rate plus 150 basis points on base rate loans or the applicable LIBOR rate plus 250 basis points on euro rate loans.

Table of Contents

At June 30, 2018, L.B. Foster had outstanding letters of credit of approximately \$425 and had net available borrowing capacity of \$71,708. The maturity date of the facility is March 13, 2020.

**United Kingdom**

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 \$1,981 at June 30, 2018). 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 2.50%. Outstanding performance bonds reduce availability under this credit facility. The subsidiary of the Company had no outstanding borrowings under this credit facility at June 30, 2018. There was approximately \$404 in outstanding guarantees (as defined in the underlying agreement) at June 30, 2018. This credit facility was renewed during the fourth quarter of 2017 with all underlying terms and conditions remaining 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 within the fourth quarter of 2018.

The United Kingdom credit facility contains certain financial covenants that require the subsidiary to maintain senior interest and cash flow coverage ratios. The subsidiary was in compliance with these financial covenants at June 30, 2018. The subsidiary had available borrowing capacity of \$1,577 at June 30, 2018.

**10. 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.

The classification of a financial asset or liability 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 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 June 30, 2018, the interest rate swaps were recorded within other current assets.

## Fair Value Measurements at Reporting Date and Using

|                  |  |  |  |
|------------------|--|--|--|
| June 30,<br>2018 | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------|--|--|--|

## Fair Value Measurements at Reporting Date and Using

|                      |  |   |  |
|----------------------|--|---|--|
| December 31,<br>2017 | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|----------------------|--|---|--|

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

|                     | (Level 1) |       |          |      | (Level 1) |       |        |      |
|---------------------|-----------|-------|----------|------|-----------|-------|--------|------|
| Term deposits       | \$ 16     | \$ 16 | \$ —     | \$ — | \$ 17     | \$ 17 | \$ —   | \$ — |
| Interest rate swaps | 1,263     | —     | 1,263    | —    | 222       | —     | 222    | —    |
| Total assets        | \$ 1,279  | \$ 16 | \$ 1,263 | \$ — | \$ 239    | \$ 17 | \$ 222 | \$ — |

The interest rate swaps are accounted for as fair value hedges and substantially offset the changes in fair value of the hedged portion of the underlying debt that are attributable to the changes in market risk. Therefore, the gains and losses related to changes in the fair value of the interest rate swaps are included in interest income or expense in our Condensed Consolidated

16



Table of Contents

Statements of Operations. For the three months ended June 30, 2018 and 2017, interest income from interest rate swaps was \$1 and expense of \$114, respectively. Interest expense from the interest rate swaps was \$34 and \$204 for the six months ended June 30, 2018 and 2017, respectively.

In accordance with the provisions of ASC 820, "Fair Value Measurement," the Company measures certain nonfinancial assets and liabilities at fair value, which are recognized or disclosed on a nonrecurring basis. The fair market value of L B Pipe JV is classified as assets held for sale utilizing a Level 2 fair value measurement. See Note 8. Investments of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for additional information.

**11. EARNINGS PER COMMON SHARE**

(Share amounts in thousands)

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

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |        |
|---|--------------------------------|----------|------------------------------|--------|
|   | 2018                           | 2017     | 2018                         | 2017   |
| Numerator for<br>basic and<br>diluted earnings<br>per common<br>share:  |                                |          |                              |        |
| Net income  | \$ 4,940                       | \$ 3,024 | \$ 2,918                     | \$ 602 |
| Denominator:  |                                |          |                              |        |
| Weighted<br>average shares<br>outstanding   | 10,365                         | 10,335   | 10,358                       | 10,327 |
| Denominator<br>for basic<br>earnings per<br>common share  | 10,365                         | 10,335   | 10,358                       | 10,327 |
| Effect of<br>dilutive<br>securities:  |                                |          |                              |        |
| Stock<br>compensation<br>plans  | 119                            | 148      | 119                          | 200    |
| Dilutive<br>potential<br>common shares  | 119                            | 148      | 119                          | 200    |
| Denominator<br>for diluted<br>earnings per<br>common share -<br>adjusted<br>weighted<br>average shares<br>outstanding | 10,484                         | 10,483   | 10,477                       | 10,527 |

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Basic earnings<br>per common<br>share   | \$ 0.48 | \$ 0.29 | \$ 0.28 | \$ 0.06 |
| Diluted<br>earnings per<br>common share | \$ 0.47 | \$ 0.29 | \$ 0.28 | \$ 0.06 |

## 12. STOCK-BASED COMPENSATION

The Company applies the provisions of ASC 718, “Compensation – Stock Compensation,” to account for the Company’s stock-based compensation. Stock-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 related to fully-vested stock awards, restricted stock awards, and performance unit awards of \$822 and \$558 for the three-month periods ended June 30, 2018 and 2017, respectively, and \$1,904 and \$725 for the six-month periods ended June 30, 2018 and 2017, respectively. At June 30, 2018, unrecognized compensation expense for awards that the Company expects to vest approximated \$5,561. The Company will recognize this expense over the upcoming 3.8 years through April 2022.

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

### **Restricted Stock Awards and Performance Unit Awards**

Under the 2006 Omnibus 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 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 agreement. Since May 2018, awards of restricted stock are subject to a minimum one-year vesting period, including those granted to non-employee directors. Prior to May 2018, awards to non-employee directors were made in fully-vested shares. Performance unit awards are offered annually under separate three-year long-term incentive programs. 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 program. 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.

Table of Contents

Since May 1, 2017, non-employee directors have been permitted to defer receipt of annual stock awards and equity elected to be received in lieu of quarterly cash compensation. If so elected, these deferred stock units will be issued as common stock six months after the separation from their service on the Board of Directors.

During the quarter ended March 31, 2018, the Compensation Committee approved the 2018 Performance Share Unit Program and the Executive Annual Incentive Compensation Plan (consisting of cash and equity components). The Compensation Committee also certified the actual performance achievement of participants in the 2015 Performance Share Unit Program. Actual performance resulted in no payout relative to the 2015 Performance Share Unit Program target performance metrics.

The following table summarizes the restricted stock award, deferred stock units, and performance unit award activity for the six months ended June 30, 2018:

|  | Restricted<br>Stock | Deferred<br>Stock Units | Performance<br>Stock Units | Weighted Average<br>Grant Date Fair<br>Value |
|--|---------------------|-------------------------|----------------------------|--|
| Outstanding<br>at December<br>31, 2017                       | 186,806             | 26,860                  | 181,341                    | \$ 16.53                                     |
| Granted  | 62,320              | 14,914                  | 65,421                     | 27.05  |
| Vested   | (35,946)            | —                       | —                          | 28.27  |
| Adjustment<br>for incentive<br>awards<br>expected to<br>vest | —                   | —                       | (5,051)                    | 14.86  |
| Cancelled<br>and forfeited                                   | (14,425)            | —                       | (11,880)                   | 15.60  |
| Outstanding<br>at June 30,<br>2018                           | 198,755             | 41,774                  | 229,831                    | \$ 18.68                                     |

**13. RETIREMENT PLANS****Retirement Plans**

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

The Company maintains two defined contribution plans for its employees in Canada, as well as a post-retirement benefit plan. The Company also maintains two defined contribution plans and a defined benefit plan for its employees in the United Kingdom.

**United States Defined Benefit Plan**

Net periodic pension costs for the United States defined benefit pension plan for the three- and six-month periods ended June 30, 2018 and 2017 are as follows:

| Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|--------------------------------|------|------------------------------|------|
| 2018                           | 2017 | 2018                         | 2017 |
|                                |      |                              |      |

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

|   |         |        |         |        |
|---|---------|--------|---------|--------|
| Interest cost                               | \$ 155  | \$ 171 | \$ 311  | \$ 342 |
| Expected<br>return on<br>plan assets        | (213)   | (178)  | (427)   | (355)  |
| Recognized<br>net actuarial<br>loss         | 24      | 33     | 48      | 65     |
| Net periodic<br>pension<br>(income)<br>cost | \$ (34) | \$ 26  | \$ (68) | \$ 52  |

The Company does not expect to contribute to its United States defined benefit plan in 2018.

18

---

Table of Contents**United Kingdom Defined Benefit Plan**

Net periodic pension costs for the United Kingdom defined benefit pension plan for the three- and six-month periods ended June 30, 2018 and 2017 are as follows:

|   | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |        |
|---|--------------------------------|-------|------------------------------|--------|
|   | 2018                           | 2017  | 2018                         | 2017   |
| Interest cost   | \$ 52                          | \$ 55 | \$ 104                       | \$ 110 |
| Expected<br>return on plan<br>assets                                  | (71)                           | (66)  | (142)                        | (132)  |
| Amortization<br>of prior<br>service costs<br>and transition<br>amount | 5                              | 4     | 10                           | 8      |
| Recognized<br>net actuarial<br>loss                                   | 49                             | 71    | 98                           | 142    |
| Net periodic<br>pension cost  | \$ 35                          | \$ 64 | \$ 70                        | \$ 128 |

United Kingdom regulations require trustees to adopt a prudent approach to funding required contributions to defined benefit pension plans. Employer contributions of approximately \$247 are anticipated to the United Kingdom Rail Technologies pension plan during 2018. For the six months ended June 30, 2018, the Company contributed approximately \$128 to the plan.

**Defined Contribution Plans**

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

|                   | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|-------------------|--------------------------------|--------|------------------------------|----------|
|                   | 2018                           | 2017   | 2018                         | 2017     |
| United<br>States  | \$ 770                         | \$ 410 | \$ 1,314                     | \$ 861   |
| Canada            | 34                             | 54     | 68                           | 113      |
| United<br>Kingdom | 98                             | 98     | 214                          | 213      |
|                   | \$ 902                         | \$ 562 | \$ 1,596                     | \$ 1,187 |

**14. 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. In addition, 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<br>December<br>31, 2017    | \$ 8,682 |
| Additions to<br>warranty<br>liability | 518      |
| Warranty<br>liability<br>utilized     | (495)    |
| Balance at<br>June 30,<br>2018        | \$ 8,705 |

Included within the above table are concrete tie warranty reserves of approximately \$7,668 and \$7,595 at June 30, 2018 and December 31, 2017, respectively.

*Union Pacific Railroad (UPRR) Concrete Tie Matter*

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 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

Table of Contents

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 tie rating 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 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

20

---



Table of Contents

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.

At 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 ("Complaint") 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, and anticipatorily repudiated its warranty obligations, and that UPRR's exclusive and limited remedy provisions in the supply agreement have failed of their essential purpose which entitles UPRR to recover all incidental and consequential damages. The Complaint seeks to cancel all duties of UPRR under the contract, to adjudge the Company as having no remaining rights under the contracts, and to recover damages in an amount to be determined at trial for the value of unfulfilled warranty replacement ties and ties likely to become warranty eligible, for costs of cover for replacement ties, and for various incidental and consequential damages. The amended 2005 supply agreement provides that UPRR's exclusive remedy is to receive a replacement tie that meets the contract specifications for each tie that failed to meet the contract specifications or otherwise contained a material defect provided that the Company receives written notice of such failure or defect within 15 years after that tie was produced. The amended 2005 supply agreement 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 that are inaccurately rated under concrete tie rating guidelines and procedures agreed to in 2012 and incorporated by amendment to the 2005 supply agreement rated and 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 deficiencies in certain 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 the ties in question complied with the specifications provided by UPRR.

On June 16 and 17, 2015, UPRR issued a 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.

2016

By Scheduling Order dated June 29, 2016, an August 31, 2017 deadline for the completion of fact discovery was established with trial to proceed at some future date after October 30, 2017, and UPRR filed an amended notice of trial to commence on October 30, 2017.

Table of Contents2017

By Third Amended Scheduling Order dated September 26, 2017, a June 29, 2018 deadline for completion of discovery has been established with trial to proceed at some future date on or after October 1, 2018. Throughout 2017, the parties continued to conduct discovery, with various disputes that required and will likely require court resolution.

2018

By Fourth Amended Scheduling Order dated March 21, 2018, certain interim pretrial deadlines for the close of discovery and various submittals were changed but the October 1, 2018 trial date set forth in UPRR's Second Amended Notice of Trial under the prior Third Amended Scheduling Order remained in place. During the first six months ended June 30, 2018, the Company continued fact discovery and prepared and exchanged expert reports. During the second quarter, the Company engaged and intends to continue to engage in both trial preparation efforts and also discussions and efforts with UPRR 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.

As a result of the pretrial status of the litigation and the unresolved nature of the parties' fact and legal disputes and the uncertainty of any potential judgment, an estimate of any additional loss, or a range of additional loss, associated with this litigation cannot be made based upon currently available information.

**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. On June 5, 2017, a General Notice Letter was received from the United States Environmental Protection Agency ("EPA") indicating that the Company may be a potentially responsible party regarding the Portland Harbor Superfund Site cleanup along with numerous other companies. By letter dated March 16, 2018, the EPA informed the Company of the proposed schedule for consent decree negotiations to implement the Portland Harbor Superfund Site Record of Decision, with negotiations scheduled to commence by the end of 2019. The Company is reviewing the basis for its identification by the EPA and the nature of the historic operations of an L.B. Foster predecessor on the site. Management does not believe that compliance with the present environmental protection laws will have a material adverse effect on the financial condition, results of operations, cash flows, competitive position, or capital expenditures of the Company.

At June 30, 2018 and December 31, 2017, the Company maintained environmental reserves approximating \$6,144 and \$6,144, respectively. The following table sets forth the Company's environmental obligation:

| Environmental liability                      |          |
|--|----------|
| Balance at<br>December 31,<br>2017           | \$ 6,144 |
| Additions to<br>environmental<br>obligations | 51       |
| Environmental<br>obligations<br>utilized     | (51)     |
| Balance at June<br>30, 2018                  | \$ 6,144 |

The Company is also subject to other legal proceedings and claims that arise in the ordinary course of its business. Legal actions are subject to inherent uncertainties, and future events could change management's assessment of the probability or estimated amount of potential losses from pending or threatened legal actions. Based on available information, it is the opinion of management that the ultimate resolution of pending or threatened legal actions, both individually and in the aggregate, will not result in losses having a material adverse effect on the Company's financial position or liquidity at June 30, 2018.

If management believes that, based on available information, it is at least reasonably possible that a material loss (or additional material loss in excess of any accrual) will be incurred in connection with any legal actions, the Company discloses an estimate of the possible loss or range of loss, either individually or in the aggregate, as appropriate, if such an estimate can be made, or discloses that an estimate cannot be made. Based on the Company's assessment at June 30, 2018, no such disclosures were considered necessary.

15. INCOME TAXES

For the three months ended June 30, 2018 and 2017, the Company recorded an income tax expense of \$673 and \$475 on pre-tax income of \$5,613 and \$3,499 for an effective income tax rate of 12.0% and 13.6%, respectively. For the six months ended June 30, 2018 and 2017, the Company recorded an income tax expense of \$1,198 and \$906 on pre-tax income of \$4,116 and \$1,508

22

---

Table of Contents

for an effective income tax rate of 29.1% and 60.1%, respectively. Due to the full valuation allowance on domestic deferred tax assets, the Company's tax provision for the three and six months ended June 30, 2018 does not reflect any tax benefit for domestic pre-tax losses, and is primarily comprised of taxes on our Canadian and United Kingdom operations. The Company continued to maintain a full valuation allowance against its U.S. deferred tax assets, which is likely to result in significant variability of the effective tax rate in the current year. Changes in pre-tax income projections and the mix of income across jurisdictions could also impact the effective income tax rate each quarter.

The Tax Act was enacted on December 22, 2017. The Tax Act reduced the U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and created new taxes on certain foreign sourced earnings. Due to the complexities involved in accounting for the enactment of the Tax Act, SEC Staff Accounting Bulletin No. 118 ("SAB No. 118") allowed the Company to record provisional amounts in earnings for the year ended December 31, 2017. The Company has not completed its accounting for the tax effects of the enactment of the Tax Act; however, as described below, the Company made reasonable estimates of the effects of the Tax Act on existing deferred tax balances and the one-time transition tax. In 2017, the Company recognized a \$1,508 provisional tax benefit related to the remeasurement of certain deferred tax assets and liabilities, as well as a \$3,298 provisional tax expense related to the one-time transition tax on mandatory deemed repatriation of foreign earnings, and related items.

During the six-month period ended June 30, 2018, there were no changes made to the provisional amounts recognized in 2017. The Company will continue to analyze the effects of the Tax Act on its Consolidated Financial Statements. Additional impacts from the enactment of the Tax Act will be recorded as they are identified during the measurement period provided for in SAB No. 118, which extends up to one year from the enactment date. The final impact of the Tax Act may differ from the provisional amounts that have been recognized, possibly materially, due to, among other things, changes in the Company's interpretation of the Tax Act, legislative or administrative actions to clarify the intent of the statutory language provided that differ from the Company's current interpretation, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates utilized to calculate the impacts.

The Company also continues to evaluate the impact of the global intangible low-taxed income ("GILTI") provisions of the Tax Act, which are complex and subject to continuing regulatory interpretation. The Company has not yet completed its assessment to make an accounting policy election to either recognize deferred taxes for basis differences expected to reverse as GILTI or to record GILTI as period costs if and when incurred. Adjustments related to the amount of GILTI tax recorded in its consolidated financial statements may be required based on the outcome of this election.

**16. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the date these financial statements were issued and concluded that no subsequent events have occurred that would require recognition in the Condensed Consolidated Financial Statements or disclosure in the Notes to 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” (“MD&A”). 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 of a future or forward-looking nature 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 relating to our strategy, goals, projections, and plans regarding our financial position, liquidity, capital resources, and results of operations; the outcome of litigation and product warranty claims; 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 has based these forward-looking statements on current expectations and assumptions about future events. While the Company considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory, and other risks and uncertainties, most of which are difficult to predict and many of which are beyond the Company’s control. 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: environmental matters, including any costs associated with any remediation and monitoring; a resumption of the economic slowdown we experienced in previous years in the markets we serve; the risk of doing business in international markets; our ability to effectuate our strategy, including cost reduction initiatives, and our ability to effectively integrate acquired businesses and realize anticipated benefits; costs of and impacts associated with shareholder activism; a decrease in freight or passenger rail traffic; the timeliness and availability of materials from our major suppliers as well as the impact on our access to supplies of customer preferences as to the origin of such supplies, such as customers’ concerns about conflict minerals; labor disputes; the continuing effective implementation of an enterprise resource planning system; changes in current accounting estimates and their ultimate outcomes; the adequacy of internal and external sources of funds to meet financing needs, including our ability to negotiate any additional necessary amendments to our credit agreement; the Company’s ability to manage its working capital requirements and indebtedness; domestic and international taxes, including estimates that may impact these amounts, including as a result of any interpretations, regulatory actions, and amendments to the Tax Cuts and Jobs Act (the “Tax Act”); foreign currency fluctuations; inflation; domestic and foreign government regulations, including tariffs; economic conditions and regulatory changes caused by the United Kingdom’s pending exit from the European Union; sustained declines in energy prices; a lack of state or federal funding for new infrastructure projects; an increase in manufacturing or material costs; the ultimate number of concrete ties that will have to be replaced pursuant to the previously disclosed product warranty claim of the Union Pacific Railroad (“UPRR”) and an overall resolution of the related contract claims as well as the possible costs associated with the outcome of the lawsuit filed by the UPRR; the loss of future revenues from current customers; and risks inherent in litigation. 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. Significant 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,” and elsewhere in our Annual Report on Form 10-K for the year ending December 31, 2017 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, except as required by the federal securities laws.*

**General Overview**

L.B. Foster Company (the “Company”) is a leading manufacturer and distributor of products and services for transportation and energy infrastructure with locations in North America and Europe. The Company is comprised of three operating segments: Rail Products and Services, Construction Products, and Tubular and Energy Services.

Table of Contents

The segment profitability measures presented within the MD&A tables include non-GAAP segment gross profit because management believes that information provides investors and other users useful information to evaluate the performance of the Company's segments on a more comparable basis to market trends and peers. Management believes that the exclusion of significant cost allocations to the reportable segments:

- Allows users to understand the operational performance of our reportable segments;
- Provides greater comparability to other registrants with similar businesses and avoids possible non-comparability at the reportable segment pre-tax profit level resulting from our specific corporate cost allocations; and
- Facilitates a market-based perspective on the strength or weakness of our reportable segments in their markets to better aid in investment decisions.

In addition, these non-GAAP financial measures have historically been key metrics utilized by segment managers to monitor selling prices and quantities as well as production and service costs to better evaluate key profitability drivers and trends that may develop due to industry and competitive conditions.

**Results of the Quarter**

| Three months ended June 30, 2018                 | Rail Products and Services | Construction Products | Tubular and Energy Services | Total     |
|--|----------------------------|-----------------------|-----------------------------|-----------|
| Segment profit                                   | \$ 5,308                   | \$ 2,857              | \$ 4,545                    | \$ 12,710 |
| Segment and allocated selling and administrative | 10,202                     | 4,185                 | 4,331                       | 18,718    |
| Amortization expense                             | 952                        | 37                    | 786                         | 1,775     |
| Non-GAAP segment gross profit                    | \$ 16,462                  | \$ 7,079              | \$ 9,662                    | \$ 33,203 |

| Three months ended June 30, 2017                 | Rail Products and Services | Construction Products | Tubular and Energy Services | Total     |
|--|----------------------------|-----------------------|-----------------------------|-----------|
| Segment profit (loss)                            | \$ 3,579                   | \$ 5,105              | \$ (126)                    | \$ 8,558  |
| Segment and allocated selling and administrative | 9,577                      | 3,883                 | 4,560                       | 18,020    |
| Amortization expense                             | 872                        | 37                    | 786                         | 1,695     |
| Non-GAAP segment gross profit                    | \$ 14,028                  | \$ 9,025              | \$ 5,220                    | \$ 28,273 |





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

Table of Contents

|                                      | Three Months Ended |            | Percent of Total Net Sales                  |                  | Percent Increase/ (Decrease) |
|--------------------------------------|--------------------|------------|---|------------------|------------------------------|
|                                      | June 30,           |            | Three Months Ended                          |                  |                              |
|                                      | 2018               | 2017       | 2018  | 2017             |                              |
| Net Sales:                           |                    |            |   |                  |                              |
| Rail Products and Services           | \$ 91,884          | \$ 69,347  | 5% <del>1</del>                             | 4% <del>9</del>  | 3% <del>5</del>              |
| Construction Products                | 42,207             | 45,465     | 24.4  | 31.4             | (7.2)                        |
| Tubular and Energy Services          | 38,799             | 30,048     | 22.5  | 20.7             | 29.1                         |
| Total net sales                      | \$ 172,890         | \$ 144,860 | 100.0                                       | 100.0            | 1% <del>3</del>              |
|                                      | Three Months Ended |            | Non-GAAP / Reported Gross Profit Percentage |                  | Percent Increase/ (Decrease) |
|                                      | June 30,           |            | Three Months Ended                          |                  |                              |
|                                      | 2018               | 2017       | 2018  | 2017             |                              |
| Gross Profit:                        |                    |            |   |                  |                              |
| Non-GAAP Rail Products and Services  | \$ 16,462          | \$ 14,028  | 1% <del>9</del>                             | 2% <del>2</del>  | 1% <del>4</del>              |
| Non-GAAP Construction Products       | 7,079              | 9,025      | 16.8  | 19.9             | (21.6)                       |
| Non-GAAP Tubular and Energy Services | 9,662              | 5,220      | 24.9  | 17.4             | 85.1                         |
| Non-GAAP Segment gross profit        | 33,203             | 28,273     |   |                  |                              |
| LIFO expense                         | (549)              | (192)      | (0.3)                                       | (0.1)            | 185.9                        |
| Other                                | (140)              | (345)      | (0.1)                                       | (0.2)            | 59.4                         |
| Total gross profit                   | \$ 32,514          | \$ 27,736  | 18% <del>8</del>                            | 19% <del>1</del> | 1% <del>2</del>              |
|                                      | Three Months Ended |            | Percent of Total Net Sales                  |                  | Percent Increase/ (Decrease) |
|                                      | June 30,           |            | Three Months Ended                          |                  |                              |
|                                      | 2018               | 2017       | 2018  | 2017             |                              |
| Expenses:                            |                    |            |   |                  |                              |
| Selling and administrative expenses  | \$ 23,368          | \$ 20,578  | 13% <del>5</del>                            | 14% <del>2</del> | 13% <del>6</del>             |
| Amortization expense                 | 1,775              | 1,695      | 1.0   | 1.2              | 4.7                          |
| Interest expense                     | 1,654              | 2,181      | 1.0   | 1.5              | (24.2)                       |

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

|   |           |           |                 |                 |                 |
|---|-----------|-----------|-----------------|-----------------|-----------------|
| Interest income                                 | (24)      | (54)      | —               | —               | 55.6            |
| Equity in income of nonconsolidated investments | —         | (145)     | —               | (0.1)           | 100.0           |
| Other expense (income)                          | 128       | (18)      | 0.1             | —               | **              |
| Total expenses                                  | \$ 26,901 | \$ 24,237 | <del>1%</del> 6 | <del>1%</del> 7 | <del>1%</del> 0 |
| Income before income taxes                      | \$ 5,613  | \$ 3,499  | <del>3%</del> 2 | <del>2%</del>   | <del>6%</del> 4 |
| Income tax expense                              | 673       | 475       | 0.4             | 0.3             | 41.7            |
| Net income                                      | \$ 4,940  | \$ 3,024  | <del>2%</del>   | <del>2%</del>   | <del>6%</del> 4 |

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

Table of Contents**Second Quarter 2018 Compared to Second Quarter 2017 – Company Analysis**

Net sales of \$172,890 for the quarter ended June 30, 2018 increased by \$28,030, or 19.3%, compared to the prior year quarter. The change was attributable to increases of 32.5% and 29.1%, in Rail Products and Services and Tubular and Energy Services, respectively. This was partially offset by a 7.2% reduction in Construction Products sales.

Gross profit increased \$4,778 compared to the prior year quarter to \$32,514 for the quarter ended June 30, 2018. Gross profit margin for the quarter ended June 30, 2018 was 18.8%, or 30 basis points (“bps”) lower than the prior year quarter. The reduction in gross profit margin was primarily due to declines in non-GAAP segment gross profit margin of 310 bps and 230 bps within Construction Products and Rail Products and Services, respectively. The decreases were partially offset by an increase in non-GAAP segment gross profit margin of 750 bps within Tubular and Energy Services.

Selling and administrative expenses increased by \$2,790 or 13.6% from the prior year. The rise was primarily driven by increases in personnel-related expenses of \$1,981 and litigation costs related to the UPRR matter of \$1,622. These increases were partially offset by a reduction in bad debt expense of \$527. As a percent of sales, selling and administrative expenses declined 70 bps compared to the prior year period.

Interest expense, net of interest income, decreased by \$497, or 23.4%, as a result of the reduction in outstanding debt as well as an interest rate at the lowest tier within the interest rate spread under our credit facility agreement. Other expense increased \$146, which primarily relates to the \$269 loss on the sale of land during the current quarter.

The Company’s effective income tax rate for the three-month period ended June 30, 2018 was 12.0%, compared to 13.6% in the prior year quarter. For the three months ended June 30, 2018, the Company recorded a tax expense of \$673, compared to \$475 in the three months ended June 30, 2017. The Company’s tax provision for the three months ended June 30, 2018 is primarily comprised of taxes related to our Canadian and United Kingdom operations.

Net income for the second quarter of 2018 was \$4,940, or \$0.47 per diluted share, compared to net income of \$3,024, or \$0.29 per diluted share, in the prior year quarter.

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

|                           | Three Months Ended<br>June 30, |           | Increase      | Percent<br>Increase |
|---------------------------|--------------------------------|-----------|---------------|---------------------|
|                           | 2018                           | 2017      | 2018 vs. 2017 | 2018 vs.<br>2017    |
| Net sales                 | \$ 91,884                      | \$ 69,347 | \$ 22,537     | 32.5%               |
| Segment profit            | \$ 5,308                       | \$ 3,579  | \$ 1,729      | 48.3%               |
| Segment profit percentage | 5.8%                           | 5.2%      | 0.6 %         | 11.9%               |

**Second Quarter 2018 Compared to Second Quarter 2017**

The Rail Products and Services segment sales increased by \$22,537, or 32.5%, compared to the prior year period. The sales increase was driven by both our Rail Technologies and Rail Products businesses of \$12,604 and \$9,933, respectively. The segment continued to capitalize on opportunities with transit agencies who are expanding to serve further geographic areas and increase passenger traffic both domestically and in Europe. The growth was also attributable to North American Class 1 freight rail spending as activity continued to remain strong through the quarter.

The Rail Products and Services segment profit increased by \$1,729 to 5.8% of net sales. The increase was primarily attributable to non-GAAP gross profit which increased by \$2,434, or 17.4%, as a result of increased volume in both our North American and European markets. Selling and administrative expenses as a percent of sales were reduced 270 bps compared to the prior year quarter.

During the current quarter, the Rail Products and Services segment had an increase in new orders of 110.3% compared to the prior year period. Additionally, backlog was \$126,856 at June 30, 2018, an increase of 61.7%, compared to \$78,460 at June 30, 2017. The Company continues to be encouraged by positive trends from increasing carloads in the North American freight rail market and strength in transit system projects expanding globally.

27

---

Table of Contents**Construction Products**

|                           | Three Months Ended<br>June 30, |                    | Decrease<br>2018 vs. 2017 | Percent<br>Decrease<br>2018 vs.<br>2017 |
|---------------------------|--------------------------------|--------------------|---------------------------|---|
|                           | 2018                           | 2017               |                           |   |
| Net sales                 | \$ 42,207                      | \$ 45,465          | \$ (3,258)                | ( <del>7</del> 2)                       |
| Segment profit            | \$ 2,857                       | \$ 5,105           | \$ (2,248)                | ( <del>44</del> .0)                     |
| Segment profit percentage | 6.8%                           | 11. <del>2</del> % | (4.5)%                    | ( <del>39</del> .7)                     |

**Second Quarter 2018 Compared to Second Quarter 2017**

The Construction Products segment sales decreased by \$3,258, or 7.2%, compared to the prior year period. Piling sales declined year over year as the Company continued to experience declining new orders within this market. Partially offsetting the reduction was an increase in Precast Concrete Products, which continued to be favorably impacted by increasing precast building sales to federal and city agencies.

The Construction Products segment profit decreased by \$2,248, or 44.0%. The decrease was related to our Piling and Fabricated Bridge business unit. Non-GAAP gross profit decreased by \$1,946, or 21.6%, which was primarily related to aggressive market conditions impacting pricing on first quarter 2018 order activity that was fulfilled during the second quarter of 2018 within Piling. The Fabricated Bridge decline was impacted by a project mix that did not include a mega project, such as the Peace Bridge project in the 2017 period. Partially offsetting the decrease was a \$609, or 18.9%, increase in Precast Concrete Products non-GAAP gross profit.

During the quarter, the Construction Products segment had a decrease in new orders of 5.4% compared to the prior year period. While sales and profit reductions were experienced during the quarter, the Company continues to be encouraged by its strong backlog.

**Tubular and Energy Services**

|                                  | Three Months Ended<br>June 30, |           | Increase<br>2018 vs. 2017 | Percent<br>Increase<br>2018 vs.<br>2017 |
|----------------------------------|--------------------------------|-----------|---------------------------|---|
|                                  | 2018                           | 2017      |                           |   |
| Net sales                        | \$ 38,799                      | \$ 30,048 | \$ 8,751                  | 29% <del>1</del>                        |
| Segment profit (loss)            | \$ 4,545                       | \$ (126)  | \$ 4,671                  | 3, <del>7</del> 07.1                    |
| Segment profit (loss) percentage | 11.7%                          | (0.4)%    | 12.1%                     | 2, <del>8</del> 93.6                    |

**Second Quarter 2018 Compared to Second Quarter 2017**

Tubular and Energy Services segment sales increased by \$8,751, or 29.1%, compared to the prior year period. The increase was due to improvements from each of the business units within the segment, as compared to the prior year period. This was supported by strong orders within both the upstream and midstream businesses.

Tubular and Energy Services segment profit increased by \$4,671 compared to the prior year quarter. The quarter was favorably impacted by a \$229, or 5.0%, reduction in selling and administrative expenses, which was partially offset by a \$269 loss on the sale of land during the quarter. Non-GAAP gross profit increased by \$4,442, or 85.1%, which was supported by growth in both our upstream and midstream offerings.

The Tubular and Energy Services segment had an increase of less than 1.0% in new orders compared to the prior year period. Orders for Test, Inspection, and Threading increased by 17.0% and Protective Coatings and Measurement Systems decreased by 10.9%. The Company remains encouraged as the upstream and midstream oil and gas markets continue to recover.

Table of Contents**Six Month Results**

| Six months ended June 30, 2018                   | Rail Products and Services | Construction Products | Tubular and Energy Services | Total     |
|--|----------------------------|-----------------------|-----------------------------|-----------|
| Segment profit                                   | \$ 7,356                   | \$ 2,875              | \$ 6,430                    | \$ 16,661 |
| Segment and allocated selling and administrative | 19,106                     | 8,162                 | 7,885                       | 35,153    |
| Amortization expense                             | 1,913                      | 75                    | 1,572                       | 3,560     |
| Non-GAAP segment gross profit                    | \$ 28,375                  | \$ 11,112             | \$ 15,887                   | \$ 55,374 |

| Six months ended June 30, 2017                   | Rail Products and Services | Construction Products | Tubular and Energy Services | Total     |
|--|----------------------------|-----------------------|-----------------------------|-----------|
| Segment profit (loss)                            | \$ 4,402                   | \$ 6,771              | \$ (806)                    | \$ 10,367 |
| Segment and allocated selling and administrative | 19,014                     | 8,213                 | 8,656                       | 35,883    |
| Amortization expense                             | 1,807                      | 75                    | 1,572                       | 3,454     |
| Non-GAAP segment gross profit                    | \$ 25,223                  | \$ 15,059             | \$ 9,422                    | \$ 49,704 |



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

Table of Contents

|                                      | Six Months Ended |            | Percent of Total Net Sales                  |       | Percent Increase/ (Decrease) |
|--------------------------------------|------------------|------------|---|-------|------------------------------|
|                                      | June 30,         |            | Six Months Ended                            |       |                              |
|                                      | 2018             | 2017       | 2018  | 2017  | 2018 vs. 2017                |
| <b>Net Sales:</b>                    |                  |            |   |       |                              |
| Rail Products and Services           | \$ 154,054       | \$ 125,827 | 52%   | 47%   | 22%                          |
| Construction Products                | 71,107           | 82,787     | 24.1  | 31.4  | (14.1)                       |
| Tubular and Energy Services          | 70,183           | 54,948     | 23.7  | 20.9  | 27.7                         |
| Total net sales                      | \$ 295,344       | \$ 263,562 | 100.0                                       | 100.0 | 12%                          |
|                                      | Six Months Ended |            | Non-GAAP / Reported Gross Profit Percentage |       | Percent Increase/ (Decrease) |
|                                      | June 30,         |            | Six Months Ended                            |       |                              |
|                                      | 2018             | 2017       | 2018  | 2017  | 2018 vs. 2017                |
| <b>Gross Profit:</b>                 |                  |            |   |       |                              |
| Non-GAAP Rail Products and Services  | \$ 28,375        | \$ 25,223  | 18%   | 20%   | 12%                          |
| Non-GAAP Construction Products       | 11,112           | 15,059     | 15.6  | 18.2  | (26.2)                       |
| Non-GAAP Tubular and Energy Services | 15,887           | 9,422      | 22.6  | 17.1  | 68.6                         |
| Non-GAAP Segment gross profit        | 55,374           | 49,704     |   |       |                              |
| LIFO expense                         | (713)            | (181)      | (0.2)                                       | (0.1) | **                           |
| Other                                | (119)            | (535)      | —   | (0.2) | 77.8                         |
| Total gross profit                   | \$ 54,542        | \$ 48,988  | 18%   | 18%   | 1%                           |
|                                      | Six Months Ended |            | Percent of Total Net Sales                  |       | Percent Increase/ (Decrease) |
|                                      | June 30,         |            | Six Months Ended                            |       |                              |
|                                      | 2018             | 2017       | 2018  | 2017  | 2018 vs. 2017                |
| <b>Expenses:</b>                     |                  |            |   |       |                              |
| Selling and administrative expenses  | \$ 43,826        | \$ 39,805  | 14%   | 15%   | 10%                          |
| Amortization expense                 | 3,560            | 3,454      | 1.2   | 1.3   | 3.1                          |
| Interest expense                     | 3,612            | 4,289      | 1.2   | 1.6   | (15.8)                       |

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

|   |           |           |                 |                 |                    |
|---|-----------|-----------|-----------------|-----------------|--------------------|
| Interest income                               | (95)      | (110)     | —               | —               | 13.6               |
| Equity in loss of nonconsolidated investments | 3         | 55        | —               | —               | (94.5)             |
| Other income                                  | (480)     | (13)      | (0.2)           | —               | **                 |
| Total expenses                                | \$ 50,426 | \$ 47,480 | 1% <del>1</del> | 1% <del>0</del> | 6% <del>2</del>    |
| Income before income taxes                    | \$ 4,116  | \$ 1,508  | 1% <del>1</del> | 0% <del>0</del> | 17% <del>2.9</del> |
| Income tax expense                            | 1,198     | 906       | 0.4             | 0.3             | 32.2               |
| Net income                                    | \$ 2,918  | \$ 602    | 1% <del>0</del> | 0% <del>2</del> | **                 |

Results of calculations are not considered meaningful for presentation purposes.

\*\*

Table of Contents**First Six Months 2018 Compared to First Six Months 2017 – Company Analysis**

Net sales of \$295,344 for the period ended June 30, 2018 increased by \$31,782, or 12.1%, compared to the prior year period. The change was attributable to increases of 27.7% and 22.4%, in Tubular and Energy Services and Rail Products and Services, respectively. This was partially offset by a 14.1% reduction in Construction Products.

Gross profit increased \$5,554 compared to the prior year quarter to \$54,542 for the six months ended June 30, 2018. Gross profit margin for the six months ended June 30, 2018 was 18.5%, or 10 bps, lower than the prior year period. The decline in gross profit margin was due to a decrease in non-GAAP segment gross profit margin of 260 bps and 160 bps within Construction Products and Rail Products and Services, respectively. This was partially offset by an increase in non-GAAP segment gross profit margin of 550 bps within Tubular and Energy Services.

Selling and administrative expenses increased by \$4,021 or 10.1% from the prior year. The increase was primarily driven by changes in personnel-related expenses of \$2,881 and litigation costs related to the UPRR matter of \$2,790. The increase was partially offset by a reduction in bad debt expense of \$1,248. As a percent of sales, selling and administrative expenses declined 30 bps compared to the prior year period.

Interest expense, net of interest income, decreased by \$662, or 15.8%, as a result of the reduction in outstanding debt. Other income increased \$467 which primarily relates to gains on foreign exchange as the United States Dollar has strengthened compared to the Canadian Dollar during the current period versus the prior year period.

The Company's effective income tax rate for the six months ended June 30, 2018 was 29.1%, compared to 60.1% in the prior year period. For the six months ended June 30, 2018, the Company recorded a tax expense of \$1,198, compared to \$906 in the six months ended June 30, 2017. Due to the full valuation allowance on domestic deferred tax assets, the Company's tax provision for the six months ended June 30, 2018 does not reflect any tax benefit for domestic pre-tax losses, and is primarily comprised of taxes related to our Canadian and United Kingdom operations.

Net income for the six months ended June 30, 2018 was \$2,918, or \$0.28 per diluted share, compared to net income of \$602, or \$0.06 per diluted share, in the prior year period.

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

|                           | Six Months Ended<br>June 30, |            | Increase<br>2018 vs. 2017 | Percent<br>Increase<br>2018 vs.<br>2017 |
|---------------------------|------------------------------|------------|---------------------------|---|
|                           | 2018                         | 2017       |                           |   |
| Net sales                 | \$ 154,054                   | \$ 125,827 | \$ 28,227                 | 22% <del>4</del>                        |
| Segment profit            | \$ 7,356                     | \$ 4,402   | \$ 2,954                  | 67% <del>1</del>                        |
| Segment profit percentage | 4.8%                         | 3.5%       | 1.3 %                     | 36% <del>5</del>                        |

**First Six Months 2018 Compared to First Six Months 2017**

Rail Products and Services segment sales increased by \$28,227, or 22.4%, compared to the prior year period. The sales increase was primarily driven by a \$14,620 increase in our North American operations, as transit rail infrastructure and Class 1 freight rail activity remained strong. The growth was also attributable to our European business, increasing \$13,607, which continued to capitalize on opportunities with transit agencies who are expanding to serve further geographic areas and increase passenger traffic.

The Rail Products and Services segment profit increased by \$2,954 to 4.8% of net sales. Non-GAAP gross profit increased by \$3,152, or 12.5%, as a result of increased volume in both our North American and European markets. Cost containment favorably impacted segment profit as selling and administrative expenses as a percent of sales were reduced 270 bps compared to the prior year period.

During the six months ended June 30, 2018, the Rail Products and Services segment had an increase in new orders of 49.2% compared to the prior year period. Backlog was \$126,856 at June 30, 2018, an increase of 61.7%, compared to \$78,460 at June 30, 2017. The Company is encouraged by continuing positive trends from increasing carloads in the North American freight rail market and strength in transit system projects expanding globally.

Table of Contents**Construction Products**

|                           | Six Months Ended<br>June 30, |           | Decrease<br>2018 vs. 2017 | Percent<br>Decrease<br>2018 vs.<br>2017 |
|---------------------------|------------------------------|-----------|---------------------------|---|
|                           | 2018                         | 2017      |                           |   |
| Net sales                 | \$ 71,107                    | \$ 82,787 | \$ (11,680)               | ( <del>14.1</del> )                     |
| Segment profit            | \$ 2,875                     | \$ 6,771  | \$ (3,896)                | ( <del>57.5</del> )                     |
| Segment profit percentage | 4.0%                         | 8.2%      | (4.1)%                    | ( <del>50.6</del> )                     |

**First Six Months 2018 Compared to First Six Months 2017**

Construction Products segment sales decreased by \$11,680, or 14.1%, compared to the prior year period. Piling sales declined year over year due to lower new order activity through the first half of 2018. Fabricated Bridge sales declined due to reduced activity on the Peace Bridge project compared to the prior year period. Partially offsetting the reductions was an increase in Precast Concrete Products, which continued to be favorably impacted by increasing building sales to federal and city agencies.

The Construction Products segment profit decreased by \$3,896, or 57.5%. The decrease was primarily within the Piling and Fabricated Bridge business unit, which was partially offset by decreased selling and administrative expenses. Non-GAAP gross profit decreased by \$3,947, or 26.2%, which was primarily a result of aggressive market conditions impacting pricing on first quarter 2018 order activity that was fulfilled during the first six months of 2018 within Piling. Fabricated Bridge was impacted by project mix in the current year compared to the Peace Bridge mega project in 2017. Partially offsetting the reduction was a \$970, or 21.5%, increase in Precast Concrete Products non-GAAP gross profit.

During the six months ended June 30, 2018, the Construction Products segment had a decrease in new orders of 1.0% compared to the prior year period. Ending backlog in the Construction segment increased by 9.1% to \$82,405 from the prior year period. While sales and profit reductions were experienced during the period, the Company is encouraged by the strong backlog going into the second half of 2018.

**Tubular and Energy Services**

|                                  | Six Months Ended<br>June 30, |           | Increase<br>2018 vs. 2017 | Percent<br>Increase<br>2018 vs.<br>2017 |
|----------------------------------|------------------------------|-----------|---------------------------|---|
|                                  | 2018                         | 2017      |                           |   |
| Net Sales                        | \$ 70,183                    | \$ 54,948 | \$ 15,235                 | 27% <del>7</del>                        |
| Segment profit (loss)            | \$ 6,430                     | \$ (806)  | \$ 7,236                  | 89% <del>7.8</del>                      |
| Segment profit (loss) percentage | 9.2%                         | (1.5)%    | 10.6%                     | 7% <del>4.6</del>                       |

**First Six Months 2018 Compared to First Six Months 2017**

Tubular and Energy Services segment sales increased by \$15,235, or 27.7%, compared to the prior year period. The increase was due to improvements from each of the business units within the segment, as compared to the prior year

period. This was supported by strong orders continuing within the upstream businesses.

Tubular and Energy Services segment profit increased by \$7,236 compared to the prior year. The period was favorably impacted by a \$771, or 8.9%, reduction in selling and administrative expenses. Non-GAAP gross profit increased by \$6,465, or 68.6%, which was supported by growth in all business units within the segment. The growth was a result of increases in both volume and margin.

The Tubular and Energy Services segment had an increase in new orders of 4.9% for the six months ended June 30, 2018 compared to the prior year period. Backlog remained flat as compared to the prior year period. Orders for Test, Inspection, and Threading increased by 16.2% while Protective Coatings and Measurement Systems decreased by 2.9%. The Company remains encouraged as the upstream and midstream oil and gas markets continue to recover.

32

---

Table of Contents**Other**Segment Backlog

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

|                             | Backlog          |                      |                  |
|-----------------------------|------------------|----------------------|------------------|
|                             | June 30,<br>2018 | December 31,<br>2017 | June 30,<br>2017 |
| Rail Products and Services  | \$ 126,856       | \$ 68,850            | \$ 78,460        |
| Construction Products       | 82,405           | 71,318               | 75,540           |
| Tubular and Energy Services | 21,991           | 26,737               | 22,023           |
| Total Backlog               | \$ 231,252       | \$ 166,905           | \$ 176,023       |

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 June 30, 2018, the Company maintained a total product warranty reserve of \$8,705 for its estimate of all potential product warranty claims. Of this total, \$7,668 reflects the current estimate of the Company's exposure for potential concrete tie warranty claims. While the Company believes this is a reasonable estimate of its potential exposure related to identified concrete tie warranty matters, the Company may incur future charges associated with new customer claims or further development of information of existing customer claims. Thus, there can be no assurance that future potential costs pertaining to warranty claims will not have a material impact on the Company's results of operations and financial condition. See Note 14. Commitments and Contingent Liabilities of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for additional information.

**Liquidity and Capital Resources**

Total debt was \$99,037 and \$129,966 as of June 30, 2018 and December 31, 2017, respectively, and was primarily comprised of borrowings under our revolving credit facility.

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

The change in cash and cash equivalents for the periods ended June 30 are as follows:

|   | June 30,<br>2018 | 2017      |
|---|------------------|-----------|
| Net cash provided by operating activities | \$ 7,902         | \$ 29,921 |
| Net cash provided by (used in)            | 270              | (4,454)   |

|  |             |          |
|--|-------------|----------|
| investing activities   |             |          |
| Net cash used by financing activities                        | (31,240)    | (21,678) |
| Effect of exchange rate changes on cash and cash equivalents | (1,339)     | 1,305    |
| Net (decrease) increase in cash and cash equivalents         | \$ (24,407) | \$ 5,094 |

#### Cash Flow from Operating Activities

During the current 2018 six-month period, cash flows provided by operating activities were \$7,902 compared to \$29,921 during the prior year period. For the six months ended June 30, 2018, income and adjustments to income from operating activities provided \$13,211 compared to \$11,053 in the 2017 period. Working capital and other assets and liabilities used \$5,309 in the current period compared to providing \$18,868 in the prior year period. The decline in cash flows provided by operating activities is primarily a result of the increase in accounts receivable of \$10,109 from the increased sales level and inventory of \$4,051 due to our stronger anticipated revenue outlook for the second half of 2018. During the six months ended June 30, 2017, the Company received \$11,773 from its 2016 and 2015 tax refunds.

The Company's calculation for days sales outstanding at June 30, 2018 was 46 days compared to 50 days at December 31, 2017, and we believe our receivables portfolio is strong.



Table of Contents

Cash Flow from Investing Activities

Capital expenditures for the six months ended June 30, 2018 and 2017 were \$1,816 and \$4,597, respectively. The current year expenditures relate to general plant and operational improvements. Expenditures for the six months ended June 30, 2017 related to expenditures for rail assets installed as part of a new long-term service contract and, to a lesser extent, general plant and operational improvements. During the six months ended June 30, 2018, the Company received \$2,086 in proceeds from the sale of certain property, plant, and equipment as compared to \$143 in the prior year period.

Cash Flow from Financing Activities

During the six months ended June 30, 2018, the Company had a decrease in outstanding debt of \$30,930, primarily related to payments against the revolving credit facility. This reduction of debt was facilitated by the repatriation of \$24,693 in excess cash from our international locations. During the six months ended June 30, 2017, the Company had a decrease in outstanding debt of \$21,581, primarily related to payments against the revolving credit facility. Treasury stock acquisitions represent income tax withholdings from employees in connection with the vesting of restricted stock awards.

Financial Condition

As of June 30, 2018, we had \$13,271 in cash and cash equivalents and a domestic credit facility with \$71,708 of net availability while we had \$99,037 in total debt. We believe this liquidity will provide the flexibility to operate the business in a prudent manner and enable us to continue to service our revolving credit facility.

Our cash management priority continues to be short-term maturities and the preservation of our principal balances. Approximately \$12,408 of our cash and cash equivalents was held in non-domestic bank accounts.

On November 7, 2016, the Company, its domestic subsidiaries, and certain of its Canadian subsidiaries entered into the Second Amendment (the "Second Amendment") to the Second Amended and Restated Credit Agreement dated March 13, 2015 and as amended by the First Amendment dated June 29, 2016 (the "Amended and Restated 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 Second Amendment modified the Amended and Restated Credit Agreement, which had a maximum revolving credit line of \$275,000. The Second Amendment reduced the permitted revolving credit borrowings to \$195,000 and provided for additional term loan borrowings of \$30,000 (the "Term Loan"). During 2017, the Company paid off the balance of the Term Loan. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Second Amendment or Amended and Restated Credit Agreement, as applicable.

The Second Amendment further provided for modifications to the financial covenants as defined in the Amended and Restated Credit Agreement. The Second Amendment calls for the elimination of the Maximum Leverage Ratio covenant through the quarter ended June 30, 2018. After that period, the Maximum Gross Leverage Ratio covenant will be reinstated to require a maximum ratio of 4.25 Consolidated Indebtedness to 1.00 Gross Leverage for the quarter ending September 30, 2018, and 3.75 to 1.00 for all periods thereafter until the maturity date of the credit facility. The Second Amendment also includes a Minimum Last Twelve Months EBITDA (as defined by the Amendment) covenant ("Minimum EBITDA"). For the quarter ended December 31, 2016 through the quarter ended June 30, 2017, the Minimum EBITDA must be at least \$18,500. For each quarter thereafter, through the quarter ended June 30, 2018, the Minimum EBITDA requirement will increase by various increments. During the second quarter ended June 30, 2018, the rolling 12-month EBITDA calculation, as defined by the Amended and Restated Credit Agreement, was \$41,515. At June 30, 2018, the Minimum EBITDA requirement will be \$31,000. After the quarter ended June 30, 2018, the Minimum EBITDA covenant was eliminated through the remainder of the Amended and Restated Credit Agreement. The Second Amendment also includes a Minimum Fixed Charge Coverage Ratio covenant. The covenant represents the ratio of the Company's fixed charges to the last twelve months of EBITDA, and is required to be a minimum of 1.00 to 1.00 through the quarter ended December 31, 2017 and 1.25 to 1.00 for each

quarter thereafter through the maturity of the credit facility. The final financial covenant included in the Second Amendment is a Minimum Liquidity covenant which calls for a minimum of \$25,000 in undrawn availability on the revolving credit loan at all times through the quarter ended June 30, 2018.

The Second Amendment includes several changes to certain non-financial covenants, as defined in the Amended and Restated Credit Agreement. Through the maturity date of the loan, the Company is now prohibited from making any future acquisitions. The limitation on permitted annual distributions of dividends or redemptions of the Company's stock was decreased from \$4,000 to \$1,700. The aggregate limitation on loans to and investments in non-loan parties was decreased from \$10,000 to \$5,000. Furthermore, the limitation on asset sales has been decreased from \$25,000 annually with a carryover of up to \$15,000 from the prior year to \$25,000 in the aggregate through the maturity date of the credit facility.

34

---

Table of Contents

The Second Amendment provided for the elimination of the three lowest tiers of the pricing grid that had previously been defined in the First Amendment. Upon execution of the Second Amendment through the quarter ended March 31, 2018, the Company will be locked into the highest tier of the pricing grid, which provides for pricing of the prime rate plus 225 basis points on base rate loans and the applicable LIBOR rate plus 325 basis points on euro rate loans. For each quarter after March 31, 2018 and through the maturity date of the credit facility, the Company's position on the pricing grid will be governed by a Minimum Net Leverage ratio, which is the ratio of Consolidated Indebtedness less cash on hand in excess of \$15,000 to EBITDA. If, after March 31, 2018, the Minimum Net Leverage ratio positions the Company on the lowest tier of the pricing grid, pricing will be the prime rate plus 150 basis points on base rate loans or the applicable LIBOR rate plus 250 basis points on euro rate loans.

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 became effective on February 28, 2017 at which point they effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contract. At June 30, 2018, the swap asset was \$1,263 compared to \$222 as of December 31, 2017.

**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. We have updated our revenue recognition policies since December 31, 2017, in conjunction with our adoption of Accounting Standards Codification 606, "Revenue from Contracts with Customers" ("ASC 606") as further described in Note 3. Revenue of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q. A summary of the Company's critical accounting policies and estimates is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

**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, 2017 is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Tabular Disclosure of Contractual Obligations in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. 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.

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

**Interest Rate Risk**

The Company is exposed to risks that increases in interest rates may adversely affect funding costs associated with its variable-rate debt. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into forward starting interest rate swap agreements which effectively convert a portion of the debt from a variable to a fixed-rate borrowing during the term of the swap contracts. See Note 10. Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for additional information.

For the six months ended June 30, 2018, a 1% change in the interest rate for variable rate debt as of June 30, 2018 would increase or decrease interest expense by approximately \$618.

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 the value of the interest rate being hedged, the ineffective portion is recognized in earnings immediately.

Table of Contents

As of June 30, 2018 and December 31, 2017, the Company recorded a current asset of \$1,263 and \$222, respectively, 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 may manage its exposure to changes in foreign currency exchange rates on firm sale and purchase commitments by entering into foreign currency forward contracts. The Company's risk management objective is to reduce its exposure to the effects of changes in exchange rates on these transactions over the duration of the transactions. The Company did not engage in foreign currency hedging transactions during the six-month periods ended June 30, 2018 and 2017.

**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) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2018. 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, chief financial officer, or person performing such functions, as appropriate to allow timely decisions regarding disclosure.

**Changes in Internal Control Over Financial Reporting**

On January 1, 2018, the Company adopted the standards of Accounting Standards Codification 606, "Revenue from Contracts with Customers" ("ASC 606"). The adoption of ASC 606 had an immaterial effect on our financial statements, but required the Company to implement changes to our processes related to revenue recognition and the control activities within them. This included the development of new policies and procedures based on the five-step model provided in ASC 606, ongoing contract review processes, and implementation of processes to obtain information to the new disclosure requirements. There were no other changes to 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 six months ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Limitations on Effectiveness of Controls and Procedures**

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Table of Contents

**PART II. OTHER INFORMATION**

**(Dollars in thousands, except share data)**

**Item 1. Legal Proceedings**

See Note 14. Commitments and Contingent Liabilities of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

**Item 1A. Risk Factors**

Other than discussed below, 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, 2017. 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, 2017, as filed with the SEC on February 28, 2018, 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. Our earnings and sales could be affected by changes to international trade agreements in North America and elsewhere, including potential increases of import tariffs. Changes in government policies in these areas might cause an increase or decrease in our sales, operating margin, and net earnings.

*We are subject to cybersecurity risks and may incur increasing costs in an effort to minimize those risks.*

Our business employs systems and websites that allow for the storage and transmission of proprietary or confidential information regarding our customers, employees, job applicants, and other parties, including financial information, intellectual property, and personal identification information. Security breaches and other disruptions could compromise our information, expose us to liability, and harm our reputation and business. The steps we take to deter and mitigate these risks may not be successful. We may not have the resources or technical sophistication to anticipate or prevent current or rapidly evolving types of cyber-attacks. Data and security breaches can also occur as a result of non-technical issues, including an intentional or inadvertent breach by our employees or by persons with whom we have commercial relationships. Federal, state, and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use, and disclosure of personal information obtained from customers and individuals. The costs of compliance with, and other burdens imposed by, such data privacy laws and regulations, including those of the European Union and the United Kingdom which are, in some respects, more stringent than U.S. standards, could be significant. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, legal and financial exposure, negative impacts on our customers' willingness to transact business with us, and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation.

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

The Company's did not purchase equity securities for the three months ended June 30, 2018.

**Item 4. Mine Safety Disclosures**

This item is not applicable to the Company.

Table of Contents**Item 6. Exhibits**

See Exhibit Index below.

**Exhibit Index**

| <u>Exhibit Number</u> | <u>Description</u>  |
|-----------------------|---|
| *10.1                 | <u>Amended and Restated 2006 Omnibus Incentive Plan, effective as of May 24, 2018.</u>  |
| *31.1                 | <u>Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.</u>  |
| *31.2                 | <u>Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.</u>  |
| *32.0                 | <u>Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.</u>                                |
| *101.INS              | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| *101.SCH              | XBRL Taxonomy Extension   |

\*101.CAL  
Schema  
Document.  
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: **July**  
**31,**  
**2018**

**By: /s/ James**  
**P. Maloney**

James P.  
Maloney  
Senior Vice  
President,  
Chief  
Financial  
Officer, and  
Treasurer  
(Duly  
Authorized  
Officer of  
Registrant)