

FOSTER L B CO  
Form 10-Q  
August 04, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2014

Or

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

Commission File Number: 0-10436

**L.B. Foster Company**

(Exact name of Registrant as specified in its charter)

**Pennsylvania**  
(State of Incorporation)

**25-1324733**  
(I. R. S. Employer

Identification No.)

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

**15220**  
(Zip Code)

**(412) 928-3400**

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

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

Class	Outstanding at July 25, 2014
Common Stock, Par Value \$.01	10,351,381 Shares

**Table of Contents**

L.B. FOSTER COMPANY AND SUBSIDIARIES

INDEX

	Page
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	33
<u>Item 4. Controls and Procedures</u>	33
<u>PART II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1A. Risk Factors</u>	34
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 4. Mine Safety Disclosures</u>	34
<u>Item 6. Exhibits</u>	35
<u>Signature</u>	36
<u>Index to Exhibits</u>	37

**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, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 87,555	\$ 64,623
Accounts receivable - net	94,496	98,437
Inventories - net	84,617	76,956
Current deferred tax assets	461	461
Prepaid income tax	674	4,741
Other current assets	4,486	2,000
Current assets of discontinued operations	19	149
<b>Total current assets</b>	<b>272,308</b>	<b>247,367</b>
Property, plant, and equipment - net	53,979	50,109
Other assets:		
Goodwill	57,781	57,781
Other intangibles - net	49,556	51,846
Investments	4,896	5,090
Other assets	1,432	1,461
<b>Total Assets</b>	<b>\$ 439,952</b>	<b>\$ 413,654</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 59,413	\$ 46,620
Deferred revenue	8,345	5,715
Accrued payroll and employee benefits	7,081	8,927
Accrued warranty	9,594	7,483
Current maturities of long-term debt	109	31
Current deferred tax liabilities	179	179
Other accrued liabilities	6,005	6,501
Liabilities of discontinued operations		26
<b>Total current liabilities</b>	<b>90,726</b>	<b>75,482</b>
Long-term debt	289	25
Deferred tax liabilities	11,404	11,798
Other long-term liabilities	9,815	9,952
Stockholders equity:		
Common stock, par value \$.01, authorized 20,000,000 shares; shares issued at June 30, 2014 and December 31, 2013, 11,115,779; shares outstanding at June 30, 2014 and December 31, 2013, 10,238,906 and 10,188,521	111	111
Paid-in capital	47,045	47,239
Retained earnings	308,252	298,361

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

Treasury stock - at cost, common stock, shares at June 30, 2014 and December 31, 2013, 876,873 and 927,258	(23,242)	(24,731)
Accumulated other comprehensive loss	(4,448)	(4,583)
<b>Total stockholders equity</b>	327,718	316,397
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 439,952</b>	<b>\$ 413,654</b>

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

**Table of Contents**

## L.B. FOSTER COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 (Unaudited)	2013	2014 (Unaudited)	2013
Net sales	\$ 166,832	\$ 149,936	\$ 278,246	\$ 279,257
Cost of goods sold	136,132	120,761	223,419	225,234
Gross profit	30,700	29,175	54,827	54,023
Selling and administrative expenses	19,599	17,951	37,624	35,081
Amortization expense	1,172	700	2,313	1,401
Interest expense	126	125	249	258
Interest income	(147)	(139)	(291)	(345)
Equity in income of nonconsolidated investment	(142)	(420)	(346)	(596)
Other income	(115)	(137)	(250)	(315)
	20,493	18,080	39,299	35,484
Income from continuing operations before income taxes	10,207	11,095	15,528	18,539
Income tax expense	3,359	3,838	5,031	6,331
Income from continuing operations	6,848	7,257	10,497	12,208
Discontinued operations:				
Income from discontinued operations before income taxes	23	62	23	23
Income tax expense	9	24	9	9
Income from discontinued operations	14	38	14	14
Net income	\$ 6,862	\$ 7,295	\$ 10,511	\$ 12,222
Basic earnings per common share:				
From continuing operations	\$ 0.67	\$ 0.71	\$ 1.03	\$ 1.20
From discontinued operations	0.00	0.00	0.00	0.00
Basic earnings per common share	\$ 0.67	\$ 0.72	\$ 1.03	\$ 1.20
Diluted earnings per common share:				
From continuing operations	\$ 0.66	\$ 0.71	\$ 1.02	\$ 1.19
From discontinued operations	0.00	0.00	0.00	0.00
Diluted earnings per common share	\$ 0.67	\$ 0.71	\$ 1.02	\$ 1.19
Dividends paid per common share	\$ 0.03	\$ 0.03	\$ 0.06	\$ 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Net income	\$ 6,862	\$ 7,295	\$ 10,511	\$ 12,222
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	1,795	(1,447)	45	(3,270)
Reclassification of pension liability adjustments to earnings, net of tax expense of \$26, \$36 and \$47, \$72 *	49	70	90	139
Other comprehensive income (loss), net of tax	1,844	(1,377)	135	(3,131)
Comprehensive income	\$ 8,706	\$ 5,918	\$ 10,646	\$ 9,091

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



**Table of Contents**

## L.B. FOSTER COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, 2014                  2013 (Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income from continuing operations	\$ 10,497	\$ 12,208
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Deferred income taxes	(419)	(444)
Depreciation and amortization	5,988	4,741
Equity in income of nonconsolidated investment	(346)	(596)
Loss on sales and disposals of property, plant, and equipment	12	49
Share-based compensation	1,799	1,091
Excess income tax benefit from share-based compensation	(283)	(133)
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	4,184	(19,700)
Inventories	(7,595)	7,994
Other current assets	(1,799)	(840)
Prepaid income tax	3,035	(2,711)
Other noncurrent assets	107	148
Dividends from LB Pipe & Coupling Products, LLC	540	468
Accounts payable	13,091	2,214
Deferred revenue	2,560	2,483
Accrued payroll and employee benefits	(1,857)	(2,766)
Other current liabilities	2,005	(4,274)
Other liabilities	60	(454)
Net cash provided (used) by continuing operating activities	31,579	(522)
Net cash provided by discontinued operations	109	229
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the sale of property, plant, and equipment	184	
Capital expenditures on property, plant, and equipment	(7,682)	(3,126)
Acquisition of business	(495)	
Net cash used by continuing investing activities	(7,993)	(3,126)

**Table of Contents**

## L.B. FOSTER COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of other long-term debt	(54)	(24)
Proceeds from other long-term debt	316	
Proceeds from exercise of stock options and stock awards	131	
Treasury stock acquisitions	(918)	(610)
Cash dividends on common stock paid to shareholders	(620)	(620)
Excess income tax benefit from share-based compensation	283	133
Net cash used by continuing financing activities	(862)	(1,121)
Effect of exchange rate changes on cash and cash equivalents	99	(2,246)
Net increase (decrease) in cash and cash equivalents	22,932	(6,786)
Cash and cash equivalents at beginning of period	64,623	101,464
Cash and cash equivalents at end of period	\$ 87,555	\$ 94,678
Supplemental disclosure of cash flow information:		
Interest paid	\$ 177	\$ 175
Income taxes paid	\$ 2,954	\$ 8,558

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

**Table of Contents**

## L.B. FOSTER COMPANY AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**1. FINANCIAL STATEMENTS**

(Dollars in thousands, except share data)

*Basis of Presentation*

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all estimates and adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. However, actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Amounts included in the balance sheet as of December 31, 2013 were derived from our audited balance sheet. 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, 2013. In this Quarterly Report on Form 10-Q, references to Foster, we, us, our, and the Company refer collectively to L.B. Foster and its consolidated subsidiaries.

*Recently issued accounting standards*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), (ASU 2014-09), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. We are currently evaluating the impact of ASU 2014-09 on our financial position and results of operations.

**2. BUSINESS SEGMENTS**

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

The following tables illustrate revenues and profits from continuing operations of the Company by segment for the periods indicated:

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Net Sales	Segment Profit	Net Sales	Segment Profit
Rail Products	\$ 107,484	\$ 6,836	\$ 180,980	\$ 12,152
Construction Products	41,810	3,371	69,193	4,587
Tubular Products	17,538	2,726	28,073	3,312
Total	\$ 166,832	\$ 12,933	\$ 278,246	\$ 20,051



**Table of Contents**

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Net Sales	Segment Profit	Net Sales	Segment Profit
Rail Products	\$ 90,892	\$ 5,835	\$ 172,291	\$ 12,036
Construction Products	43,697	2,056	80,508	2,518
Tubular Products	15,347	4,547	26,458	7,154
Total	\$ 149,936	\$ 12,438	\$ 279,257	\$ 21,708

Segment profits from continuing operations, as shown above, include internal cost of capital charges for assets used in the segment at a rate of generally 1% per month. There has been no change in the measurement of segment profit from continuing operations from December 31, 2013. The internal cost of capital charges are eliminated during the consolidation process.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income for reportable segments	\$ 12,933	\$ 12,438	\$ 20,051	\$ 21,708
Interest expense	(126)	(125)	(249)	(258)
Interest income	147	139	291	345
Other income	115	137	250	315
LIFO income (expense)	202	(14)	198	(254)
Equity in income of nonconsolidated investment	142	420	346	596
Corporate expense, cost of capital elimination, and other unallocated charges	(3,206)	(1,900)	(5,359)	(3,913)
Income from continuing operations before income taxes	\$ 10,207	\$ 11,095	\$ 15,528	\$ 18,539

**3. ACQUISITIONS**

During the prior year, the Company acquired substantially all of the assets and liabilities of Ball Winch, LLC (Ball Winch). Cash payments totaling \$37,500 were made during 2013 and a post-closing working capital adjustment of \$495 was paid in February 2014 resulting in a total purchase price of \$37,995. Included within the purchase price was \$3,300 which is held in escrow to satisfy any indemnity claims under the purchase agreement. The results of operations for Ball Winch are included in the Company's Tubular segment for the six months ended June 30, 2014.

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

	November 7, 2013 Ball Winch Fair Value
Allocation of Purchase Price	
Current assets	\$ 1,857
Other assets	64
Property, plant, and equipment	5,555
Goodwill	16,544
Other intangibles	14,682
Current liabilities	(707)
Total	\$ 37,995



**Table of Contents**

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

Intangible Asset	November 7, 2013 Ball Winch Fair Value	Weighted Average Amortizable Life (years)
Trade name	\$ 723	0.5
Technology	11,129	7.5
Non-competition agreements	2,830	1.0
Total identified intangible assets	\$ 14,682	

The Company continues to evaluate certain current liabilities assumed in the Ball Winch acquisition. If new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected their measurement, the Company will retrospectively adjust the amounts recognized as of the acquisition date.

The Company has concluded that intangible assets and goodwill values resulting from this transaction will be deductible for tax purposes.

#### 4. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill at June 30, 2014 and December 31, 2013 was \$57,781, of which \$38,026 is attributable to the Company's Rail Products segment, \$3,211 to the Construction Products segment, and \$16,544 to the Tubular Products segment.

The Company performs goodwill impairment tests at least annually. 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 as a basis for determining whether it is necessary to perform the two-step goodwill impairment test on an interim measurement date. No goodwill impairment test was required in connection with these evaluations for the six months ended June 30, 2014. The Company performs its annual evaluation of the carrying value of its goodwill during the fourth quarter.

As of June 30, 2014 and December 31, 2013, gross identified intangible assets of \$44,455 are attributable to the Company's Rail Products segment, \$1,830 are attributable to the Construction Products segment, and \$14,682 are attributable to the Tubular Products segment.

**Table of Contents**

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

	Weighted Average Amortization Period In Years	June 30, 2014		Net Carrying Amount
		Gross Carrying Value	Accumulated Amortization	
Non-compete agreements	5	\$ 2,860	\$ (403)	\$ 2,457
Patents	10	639	(228)	411
Customer relationships	23	19,960	(4,118)	15,842
Supplier relationships	5	350	(248)	102
Trademarks and trade names	16	7,003	(1,587)	5,416
Technology	15	30,155	(4,827)	25,328
		\$ 60,967	\$ (11,411)	\$ 49,556

	Weighted Average Amortization Period In Years	December 31, 2013		Net Carrying Amount
		Gross Carrying Value	Accumulated Amortization	
Non-compete agreements	5	\$ 2,860	\$ (117)	\$ 2,743
Patents	10	639	(201)	438
Customer relationships	23	19,960	(3,575)	16,385
Supplier relationships	5	350	(213)	137
Trademarks and trade names	16	7,003	(1,334)	