FOSTER L B CO
Form 10-Q
November 09, 2011

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2011

Or

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

Commission File Number: 0-10436

L. B. Foster Company
(Exact name of Registrant as specified in its charter)

Pennsylvania (State of Incorporation)	25-1324733 (I. R. S. Employer Identification No.)
415 Holiday Drive, Pittsburgh, Pennsylvania (Address of principal executive offices)	15220 (Zip Code)

(412) 928-3417
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	Yes [X] No [ ]

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 [X]	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 [X]

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 November 1, 2011
Common Stock, Par Value $.01	10,058,333 Shares

Table of Contents

L.B. FOSTER COMPANY AND SUBSIDIARIES

INDEX

PART I. Financial Information	Page
Item 1. Financial Statements:	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures about Market Risk	37
Item 4. Controls and Procedures	37
PART II. Other Information	
Item 1. Legal Proceedings	37
Item 1A. Risk Factors	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 5. Other Information	38
Item 6. Exhibits	39
Signature	40

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

L. B. FOSTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$57,135	$74,800
Accounts and notes receivable:		
Trade	80,514	66,908
Other	743	2,789
	81,257	69,697
Inventories	93,880	90,367
Current deferred tax assets	1,698	911
Prepaid income taxes	0	972
Other current assets	2,156	2,535
Total Current Assets	236,126	239,282
Property, Plant & Equipment - At Cost	126,189	119,618
Less Accumulated Depreciation	(79,293)	(73,402)
	46,896	46,216
Other Assets:		
Goodwill	44,205	44,205
Other intangibles - net	43,591	45,429
Investments	3,182	1,987
Other assets	1,722	1,663
TOTAL ASSETS	$375,722	$378,782
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$2,377	$2,402
Accounts payable - trade	53,898	45,533
Deferred revenue	8,273	16,868
Accrued payroll and employee benefits	8,528	9,054
Other accrued liabilities	15,893	22,962
Total Current Liabilities	88,969	96,819
Long-Term Debt	407	2,399
Deferred Tax Liabilities	10,682	11,929
Other Long-Term Liabilities	9,876	11,888
STOCKHOLDERS' EQUITY:		
Common stock, issued 10,056,954 shares at 9/30/2011		
and 10,277,138 shares at 12/31/2010	111	111

Paid-in capital	47,619	47,286
Retained earnings	249,303	233,279
Treasury stock - at cost, Common Stock, 1,058,825 shares		
at 9/30/2011 and 814,249 shares at 12/31/2010	(28,751)	(23,861)
Accumulated other comprehensive loss	(2,494)	(1,068)
Total Stockholders' Equity	265,788	255,747
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$375,722	$378,782

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Net Sales	$162,701	$125,561	$453,507	$327,067
Cost of Goods Sold	131,921	105,519	378,968	274,637
Gross Profit	30,780	20,042	74,539	52,430
Selling and Administrative Expenses	17,365	9,763	49,691	29,633
Amortization Expense	706	95	2,116	192
Interest Expense	170	211	443	697
Interest Income	(74)	(114)	(224)	(295)
Equity in (Income)/Loss of Nonconsolidated Investment	(287)	31	(570)	272
Gain on Foreign Exchange	(715)	0	(505)	0
Other (Income)/Expense	(646)	(46)	(814)	(199)
	16,519	9,940	50,137	30,300
Income Before Income Taxes	14,261	10,102	24,402	22,130
Income Tax Expense	4,521	3,589	7,611	7,877
Net Income	$9,740	$6,513	$16,791	$14,253
Basic Earnings Per Share	$0.96	$0.64	$1.64	$1.40
Diluted Earnings Per Share	$0.95	$0.63	$1.62	$1.38
Dividends Paid Per Share	$0.025	$0.00	$0.075	$0.00

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Nine Months Ended September 30,	
	2011	2010
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$16,791	$14,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(1,000)	7
Depreciation and amortization	9,075	6,640
Equity in (income)/losses of nonconsolidated investment	(570)	272
Loss on sale of property, plant and equipment	95	1
Deferred gain amortization on sale-leaseback	(738)	(161)
Stock-based compensation	1,720	1,199
Excess tax benefit from share-based compensation	(389)	(623)
Unrealized loss on derivative mark-to-market	0	11
Change in operating assets and liabilities:		
Accounts receivable	(11,959)	(1,209)
Inventories	(3,940)	5,212
Other current assets	554	75
Prepaid income tax	1,669	160
Other noncurrent assets	(432)	85
Accounts payable - trade	8,260	(9,228)
Deferred revenue	(9,149)	16,247
Accrued payroll and employee benefits	(740)	177
Other current liabilities	1,624	(384)
Other liabilities	(840)	(79)
Net Cash Provided by Operating Activities	10,031	32,655
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of property, plant and equipment	51	0
Capital expenditures on property, plant and equipment	(8,107)	(4,064)
Acquisitions	(8,952)	(5,050)
Capital contributions to equity method investment	(625)	(800)
Net Cash Used by Investing Activities	(17,633)	(9,914)

Table of Contents

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

	Nine Months Ended September 30,	
	2011	2010
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt, term loan	0	(2,143)
Repayments of other long-term debt	(2,017)	(2,155)
Proceeds from exercise of stock options and stock awards	123	272
Excess tax benefit from share-based compensation	389	623
Treasury stock acquisitions	(6,501)	0
Cash dividends on common stock paid to shareholders	(767)	0
Net Cash Used by Financing Activities	(8,773)	(3,403)
Effect of exchange rate changes on cash and cash equivalents	(1,290)	0
Net (Decrease)/Increase in Cash and Cash Equivalents	(17,665)	19,338
Cash and Cash Equivalents at Beginning of Period	74,800	124,845
Cash and Cash Equivalents at End of Period	$57,135	$144,183
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	$360	$605
Income Taxes Paid	$6,314	$7,766
Capital Expenditures Funded through Capital Leases	$0	$144

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

1. FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all estimates and adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. However, actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. Amounts included in the balance sheet as of December 31, 2010 were derived from our audited balance sheet. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2010.

2. NEW ACCOUNTING PRINCIPLES

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This update will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. The update is effective for interim and annual periods beginning after December 15, 2011. The update will have no impact on the Company's financial condition or results of operations.

3. BUSINESS SEGMENTS

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

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Net Sales	Segment Profit	Net Sales	Segment Profit
	In thousands			
Rail products	$91,833	$9,311	$247,421	$13,610
Construction products	62,098	4,917	181,904	12,395
Tubular products	8,770	1,951	24,182	4,673
Total	$162,701	$16,179	$453,507	$30,678

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	Net	Segment	Net	Segment

	Sales	Profit	Sales	Profit
	In thousands			
Rail products	$54,897	$3,256	$148,642	$8,255
Construction products	62,845	5,873	158,226	14,199
Tubular products	7,819	1,515	20,199	2,319
Total	$125,561	$10,644	$327,067	$24,773

Table of Contents

Segment profits, as shown above, include internal cost of capital charges for assets used in the segment at a rate of, generally, 1% per month. There has been no change in the measurement of segment profit from December 31, 2010.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	In thousands			
Income for reportable segments	$16,179	$10,644	$30,678	$24,773
Cost of capital for reportable segments	4,015	4,158	11,468	12,006
Amortization expense	(706)	(95)	(2,116)	(192)
Interest expense	(170)	(211)	(443)	(697)
Interest income	74	114	224	295
Equity in income/(loss) of nonconsolidated investment	287	(31)	570	(272)
Gain on foreign exchange	715	0	505	0
Other income/(expense)	15	(8)	76	38
LIFO (expense)/credit	(444)	673	(1,140)	1,424
Corporate expense and other unallocated charges	(5,704)	(5,142)	(15,420)	(15,245)
Income before income taxes	$14,261	$10,102	$24,402	$22,130

4. ACQUISITIONS

Portec Rail Products, Inc.

On December 15, 2010, the Company acquired Portec Rail Products, Inc. (Portec Rail) and recorded its acquisition in accordance with ASC 805, "Business Combinations." Pursuant to the terms of the Agreement and Plan of Merger, the Company's subsidiary was merged with and into Portec Rail, with Portec Rail surviving as a wholly owned subsidiary of the Company. The merger was consummated pursuant to Section 31D-11-1105 of the West Virginia Business Corporation Act without a vote or meeting of Portec Rail's stockholders. All outstanding shares of common stock of Portec Rail not owned by the Company were canceled and converted into the right to receive consideration equal to $11.80 per Share (the same price paid in the tender offer), net to the holder in cash, without interest thereon. The total consideration paid in cash by the Company for the Shares acquired in the merger and tender offer was approximately $113,322,000, including a final payment of $8,952,000 made in January 2011.

The Company is in the process of completing its fair market appraisals, including the valuation of certain asset retirement obligations associated with leased facilities. Accordingly, the preliminary purchase price allocation is subject to change.

The Company made adjustments to the preliminary purchase price allocation during the measurement period related primarily to the valuation of identified intangible assets. None of these adjustments were material to the preliminary purchase price allocation.

In accordance with ASC 805, the Company has reclassified its Consolidated Balance Sheet as of December 31, 2010 to reflect these adjustments. These adjustments did not affect depreciation or amortization expense. These intangible assets have not been placed into service and, in accordance with ASC 805, will be subject to annual impairment testing.

Table of Contents

The following table presents the preliminary allocation of the aggregate purchase price based on estimated fair values and adjustments made during the measurement period:

	Preliminary As-adjusted In thousands
Cash and cash equivalents	$ 16,455
Accounts receivable	19,857
Inventories	21,048
Assets held for sale – insulated joint business	10,179
Other current assets	3,009
Property, plant & equipment	10,878
Identified intangible assets	44,020
Other assets	411
Total identifiable assets acquired	125,857
Debt obligations	(7,492)
Accounts payable – trade	(10,885)
Deferred revenue	(2,211)
Accrued payroll and employee benefits	(4,373)
Other accrued liabilities	(8,156)
Other long-term liabilities	(7,066)
Deferred tax liabilities	(13,346)
Net identifiable assets acquired	72,328
Goodwill	40,994
Net assets acquired	$ 113,322

Due to the timing of the closing, the above purchase price allocation is based on a preliminary valuation. The measurement period for purchase price allocations ends as soon as information on the facts and circumstances becomes available. The Company will finalize purchase accounting for the Portec Rail acquisition in the fourth quarter of 2011.

The $44,020,000 of acquired identified intangible assets will be amortized over their respective, expected useful lives. Of the amount preliminarily allocated to identifiable intangible assets, $6,280,000 was assigned to trademarks (8-20 year useful lives), $19,230,000 was assigned to acquired technology (8-25 year useful lives), $18,160,000 was assigned to customer relationships (25-year useful life), and $350,000 was assigned to supplier relationships (5-year useful life).

The Company repaid all of the outstanding debt of Portec Rail in December 2010.

The acquisition of Portec Rail will help the Company become a strategic provider of products and services below the wheel for the Class I, transit, shortline and regional railroads and contractors in North America, as well as to governmental agencies and rail contractors globally. It will broaden the Company's offerings by adding Portec Rail's friction management and wayside detection products and services. This acquisition will also assist the Company's international expansion, as Portec Rail currently has a strong presence in Canada and the United Kingdom, and has continued to improve its presence in Europe, Brazil, Southeast Asia, China and Australia.

The amount allocated to goodwill reflects the premium paid to acquire Portec Rail. More information regarding goodwill can be found in Note 5, "Goodwill and Other Intangible Assets."

Table of Contents

The unaudited pro forma results for the periods presented below are prepared as if the transaction occurred as of January 1, 2009. Pro forma adjustments exclude operating results of the divested rail joint business, and include depreciation and amortization and other adjustments in connection with the acquisition.

	For the Three Months Ended September 30, 2010		For the Nine Months Ended September 30, 2010	
	In thousands, except per share data			
Total net sales	$	147,315	$	392,530
Earnings before income taxes	$	10,616	$	22,643
Net income	$	6,863	$	13,997
Basic earnings per share	$	0.67	$	1.37
Dilutive earnings per share	$	0.66	$	1.36

Acquisition costs were approximately $82,000 and $1,237,000 for the three and nine month periods ended September 30, 2010, and were classified as "Selling and Administrative Expenses."

5. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill for the periods ended September 30, 2011 and December 31, 2010 was $44,205,000.

As part of our procedures to determine fair values of all acquired assets, we determined the fair value of technology, intellectual property, goodwill and other intangible assets.

Identified intangible assets as of September 30, 2011 of $2,305,000 are attributable to the Company's Construction Products segment and $44,249,000 are attributable to the Company's Rail Products segment. The components of the Company's intangible assets are as follows:

	September 30, 2011						
	Weighted Average Amortization Period In Years		Gross Carrying Value		Accumulated Amortization		Net Carrying Amount
	In thousands						
Non-compete agreements	5	$	380	$	(359)	$	21
Patents	10		125		(122)		3
Customer relationships	23		19,960		(1,131)		18,829
Supplier relationships	5		350		(56)		294
Trademarks	17		6,280		(339)		5,941
Technology	18		19,459		(956)		18,503
	20	$	46,554	$	(2,963)	$	43,591

	December 31, 2010			
	Weighted Average	Gross Carrying	Accumulated	Net Carrying

	Amortization Period In Years	Value	Amortization	Amount
		In thousands		
Non-compete agreements	5	$ 380	$ (355)	$ 25
Patents	10	125	(113)	12
Customer relationships	23	19,960	(316)	19,644
Supplier relationships	5	350	(3)	347
Trademarks	17	6,280	(16)	6,264
Technology	18	19,230	(93)	19,137
	20	$ 46,325	$ (896)	$ 45,429

Table of Contents

In conjunction with the acquisition of Portec Rail, the Company recorded the fair values of the acquired intangible assets in accordance with ASC 805, Business Combinations. As part of our procedures to determine fair values of all acquired assets the Company is evaluating the technology and intellectual property along with other intangible assets that could be assigned a fair value under the acquisition. The Company developed historical and projected cash flows of the technology-based product lines along with an estimate of future costs to maintain these technologies. These estimates and other assumptions were used to determine the present value of the discounted cash flows of these various technologies. In addition, the Company evaluated the future lives of the identified intangible assets to determine if they have definite or indefinite lives.

As a result of the Portec Rail acquisition, the Company preliminarily assigned a fair value of $6,280,000 to trademarks, $19,230,000 to technology-based product lines, $18,160,000 to customer relationships and $350,000 to a supplier relationship. Several factors were considered that contributed to the fair value of these intangible assets, including, but not limited to, the Company's position within the global railway supply industry, the level of competition that exists, the life-cycle of the product categories, and the acceptance of the technologies within the global railway supply industry. These identified intangible assets are being amortized over their respective useful lives identified in the above table.

Intangible assets are amortized over their useful lives ranging from 5 to 25 years, with a total weighted average amortization period of approximately 20 years. Amortization expense for the three month periods ended September 30, 2011 and 2010 was $706,000 and $95,000, respectively. Amortization expense for the nine month periods ended September 30, 2011 and 2010 was $2,116,000 and $192,000, respectively.

Estimated amortization expense for the remainder of 2011 and the fiscal years 2012 and thereafter is as follows:

		In thousands
2011	$	639
2012		2,742
2013		2,742
2014		2,557
2015		2,376
2016 and thereafter		32,535
	$	43,591

6. ACCOUNTS RECEIVABLE

Credit is extended based upon an evaluation of the customer's financial condition and, generally, collateral is not required. Credit terms are consistent with industry standards and practices. Trade accounts receivable at September 30, 2011 and December 31, 2010 have been reduced by an allowance for doubtful accounts of ($1,645,000) and ($1,601,000), respectively.

7. INVENTORIES

Inventories of the Company at September 30, 2011 and December 31, 2010 are summarized in the following table:

	September 30, 2011	December 31, 2010

		In thousands	
Finished goods		$ 71,934	$ 71,634
Work-in-process		8,066	5,346
Raw materials		23,020	21,387
Total inventories at current costs		103,020	98,367
Less:	LIFO reserve	(9,140)	(8,000)
		$ 93,880	$ 90,367

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

Table of Contents

8. INVESTMENTS

Investments of the Company consist of a nonconsolidated equity method investment of $3,182,000 and $1,987,000 at September 30, 2011 and December 31, 2010, respectively.

The Company is a member of a joint venture with L B Industries, Inc. and James Legg until June 30, 2019. The Company and L B Industries, Inc. each have a 45% ownership interest in the joint venture, L B Pipe & Coupling Products, LLC (JV), which commenced operations in January 2010. The venture manufactures, markets and sells various products for the energy, utility and construction markets. Under the terms of the JV agreement, as amended, the Company was initially required to make capital contributions totaling $2,200,000. The Company fulfilled these commitments during 2010. In April 2011, the Company entered into a third amendment to the JV agreement. Under the terms of this amendment, the Company is required to make additional capital contributions totaling $680,000, bringing the Company's total required capital contributions to $2,880,000. The other JV members are required to make proportionate contributions in accordance with the ownership percentages in the JV agreement.

Under applicable guidance for variable interest entities in ASC 810, "Consolidation," the Company determined that the JV is a variable interest entity, as the JV has not demonstrated that it has sufficient equity to support its operations without additional financial support. The Company concluded that it is not the primary beneficiary of the variable interest entity, as the Company does not have a controlling financial interest and does not have the power to direct the activities that most significantly impact the economic performance of the JV. Accordingly, the Company concluded that the equity method of accounting remains appropriate.

The Company recorded equity in the income of the JV of approximately $287,000 and $570,000 for the three and nine months ended September 30, 2011. Approximately ($31,000) and ($272,000) of equity losses of the JV were recorded for the three and nine months ended September 30, 2010.

The Company's exposure to loss results from its capital contributions, net of the Company's share of the venture's gains or losses, and its net investment in the direct financing lease covering the facility used by the JV for its operations. The carrying amounts with the maximum exposure to loss of the Company at September 30, 2011 and December 31, 2010, respectively, are as follows:

	September 30, 2011	December 31, 2010
	In thousands	
Nonconsolidated equity method investment	$3,182	$1,987
Net investment in direct financing lease	983	1,108
	$4,165	$3,005

The Company is leasing 5 acres of land and the facility to the JV over a period of 9.5 years, with a 5.5 year renewal period. Monthly rent over the term of the lease is approximately $10,000, with a balloon payment of approximately $488,000 which is required to be paid either at the termination of the lease, allocated over the renewal period or during the initial term of the lease. This lease qualifies as a direct financing lease under the applicable guidance in ASC 840-30, "Leases." The Company maintained a net investment in this direct financing lease of approximately $983,000 and $1,018,000 at September 30, 2011 and December 31, 2010, respectively.

The following is a schedule of the direct financing minimum lease payments for the remainder of 2011 and the fiscal years 2012 and thereafter:

		In thousands
2011	$	12
2012		51
2013		54
2014		58
2015		63
2016 and thereafter		745
	$	983

Table of Contents

9. DEFERRED REVENUE

Deferred revenue consists of customer payments received for which the sales process has been substantially completed but the right to recognize revenue has not yet been met. The Company has significantly fulfilled its obligations under the contract and the customer has paid, but due to the Company's continuing involvement with the material, revenue is precluded from being recognized until the customer takes possession.

10. BORROWINGS

United States

On May 2, 2011, the Company, its domestic subsidiaries, and certain Canadian subsidiaries entered into a new $125,000,000 Revolving Credit Facility Credit Agreement (Credit Agreement) with PNC Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A. and Citizens Bank of Pennsylvania. This Credit Agreement replaced a prior revolving credit facility with a maximum credit line of $90,000,000 and a $20,000,000 term loan. The Credit Agreement provides for a five-year, unsecured revolving credit facility that permits borrowing up to $125,000,000 for the U.S. borrowers and a sublimit of the equivalent of $15,000,000 U.S. dollars that is available to the Canadian borrowers. Providing no event of default exists, the Credit Agreement contains a provision that provides for an increase in the revolver facility of $50,000,000 that can be allocated to existing or new lenders if the Company's borrowing requirements should grow. The Credit Agreement includes a sublimit of $20,000,000 for the issuance of trade and standby letters of credit.

Borrowings under the Credit Agreement will bear interest at rates based upon either the base rate or LIBOR based rate plus applicable margins. Applicable margins are dictated by the ratio of the Company's Indebtedness less cash on hand to the Company's consolidated EBITDA, as defined in the underlying Credit Agreement. The base rate is the highest of (a) PNC Bank's prime rate, (b) the Federal Funds Rate plus .50% or (c) the daily LIBOR, as defined in the underlying Credit Agreement, rate plus 1.00%. The base rate spread ranges from 0.00% to 1.00%. LIBOR based rates are determined by dividing the published LIBOR rate by a number equal to 1.00 minus the percentage prescribed by the Federal Reserve for determining the maximum reserve requirements with respect to any Eurocurrency funding by banks on such day. The LIBOR based rate spread ranges from 1.00% to 2.00%.

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

The Credit Agreement contains certain limitations regarding share repurchases, dividends, loans to other parties, and other activities when borrowings are outstanding. The Company is permitted to acquire the stock or assets of other entities with limited restrictions providing that the Leverage Ratio does not exceed 2.50 to 1.00 after giving effect to the acquisition.

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

As of September 30, 2011, the Company was in compliance with the Agreement's covenants.

The Company had no outstanding borrowings under the revolving credit facility at September 30, 2011 or either the term loan or revolving credit facility at December 31, 2010 and, as of September 30, 2011, had available borrowing

capacity of $123,878,000.

At September 30, 2011 the Company had outstanding letters of credit of approximately $1,122,000.

United Kingdom

A subsidiary of the Company has a working capital facility with NatWest Bank for its United Kingdom operations which includes an overdraft availability of $2,200,000 (£1,500,000 pounds sterling). This credit facility supports the working capital requirements and is collateralized by substantially all of the assets of its United Kingdom operations. The interest rate on this facility is the financial institution's base rate plus 1.50%. Outstanding performance bonds reduce availability under this credit facility. There were no borrowings or performance bonds outstanding on this facility as of September 30, 2011 or December 31, 2010. The expiration date of this credit facility is June 30, 2012.

Table of Contents

The United Kingdom loan agreements contain certain financial covenants that require it to maintain senior interest and cash flow coverage ratios. The subsidiary was in compliance with these financial covenants as of September 30, 2011.

11. EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	In thousands, except per share data			
Numerator:				
Numerator for basic and diluted earnings per common share - net income available to common stockholders:	$ 9,740	$ 6,513	$ 16,791	$ 14,253
Denominator:				
Weighted average shares	10,185	10,246	10,257	10,203
Denominator for basic earnings per common share	10,185	10,246	10,257	10,203
Effect of dilutive securities:				
Employee stock options	26	56	31	76
Other stock compensation plans	82	52	78	45
Dilutive potential common shares	108	108	109	121
Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversions	10,293	10,354	10,366	10,324
Basic earnings per common share	$ 0.96	$ 0.64	$ 1.64	$ 1.40
Diluted earnings per common share	$ 0.95	$ 0.63	$ 1.62	$ 1.38

12. STOCK-BASED COMPENSATION

The Company applies the provisions of ASC 718, “Compensation – Stock Compensation,” to account for the Company’s share-based compensation. Share-based compensation cost is measured at the grant date based on the calculated fair value of the award and is recognized over the employees’ requisite service period. The Company recorded stock compensation expense of $465,000 and $400,000 for the three month periods ended September 30, 2011 and 2010, respectively, and $1,720,000 and $1,199,000 for the nine month periods ended September 30, 2011 and 2010, respectively, related to restricted stock awards and performance unit awards as discussed below.

Stock Option Awards

The Company recorded no stock compensation expense related to stock option awards for the three or nine month periods ended September 30, 2011 and 2010. There were no nonvested awards at September 30, 2011 and 2010. There were no stock options granted during the first nine months of 2011 or 2010.

At September 30, 2011, common stock options outstanding under the plans had option prices ranging from $4.10 to $14.77, with a weighted average exercise price of $8.83 per share. At September 30, 2010, common stock options outstanding under the plans had option prices ranging from $2.75 to $14.77, with a weighted average exercise price of $6.68 per share.

The weighted average remaining contractual life of the stock options outstanding at September 30, 2011 and 2010 was 3.1 and 2.8 years, respectively.

Options exercised during the three month period ended September 30, 2011 totaled 10,000 shares. The weighted average exercise price per share of the options exercised during the three month period ended September 30, 2011 was $4.87. The total intrinsic value of options exercised during the three month period ended September 30, 2011 was $154,000. There were no options exercised during the three month period ended September 30, 2010.

Table of Contents

Options exercised during the nine month periods ended September 30, 2011 and 2010 totaled 31,000 and 70,000 shares, respectively. The weighted average exercise price per share of the options exercised during the nine month periods ended September 30, 2011 and 2010 were $3.93 and $3.90, respectively. The total intrinsic value of options exercised during the nine month periods ended September 30, 2011 and 2010 were $909,000 and $1,638,000, respectively.

A summary of the option activity as of September 30, 2011 is presented below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding and Exercisable at January 1, 2011	80,950	$6.95	2.7	
Granted	-	-	-	
Canceled	-	-	-	
Exercised	(31,000)	3.93	-	
Outstanding and Exercisable at September 30, 2011	49,950	$8.83	3.1	$669,330

The total intrinsic value of options outstanding and exercisable at September 30, 2010 was $2,470,000.

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

Restricted Stock Awards

During the nine month periods ended September 30, 2011 and 2010 there were 10,500 and 12,000, respectively, fully vested restricted stock awards granted to the outside directors of the Company. The weighted average fair value per share of these restricted stock awards was $35.24 and $28.32, respectively. Compensation expense recorded by the Company related to these restricted stock awards was approximately $370,000 and $340,000, respectively, for the nine month periods ended September 30, 2011 and 2010.

For the nine month periods ended September 30, 2011 and 2010, the Company granted approximately 46,000 and 32,000 shares, respectively, of restricted stock to individuals who are not outside directors:

Grant Date	Units	Grant Date Fair Value	Aggregate Fair Value	Vesting Date
March 3, 2010	12,185	$31.92	$388,945	March 3, 2014
May 28, 2010	2,500	28.07	70,175	February 28,2012
May 28, 2010	17,500	28.07	491,225	May 28, 2014
March 15, 2011	24,836	38.46	955,193	March 15, 2015
July 21, 2011	16,600	38.44	638,104	July 21, 2015
August 29, 2011	5,000	24.50	122,500	August 29,2014

These awards are subject to forfeiture and cannot be transferred until four years after their grant date, unless indicated otherwise by the underlying agreement. These forfeitable restricted stock awards time-vest after a four year holding period, unless indicated otherwise by the underlying agreement.

Table of Contents

Performance Unit Awards

Under separate three year incentive programs pursuant to the 2006 Omnibus Incentive Plan, as amended, the Company granted the following performance units during the nine month periods ended September 30:

Incentive Plan	Grant Date	Units	Grant Date Fair Value	Aggregate Fair Value	Vesting Date
2009 – 2011	March 3, 2009	52,672	$ 20.63	$ 1,086,623	March 3, 2012
2010 – 2012	March 2, 2010	36,541	31.83	1,163,100	March 2, 2013
2011 – 2013	March 15, 2011	34,002	38.46	1,046,174	March 15, 2014

On March 15, 2011, the Company awarded pursuant to the 2006 Omnibus Incentive Plan, as Amended and Restated, 1,500 shares of special performance units to an employee director. Based on the fiscal 2012 performance of the Company's newly acquired subsidiary, these units may be converted into up to 3,000 shares of the Company's common stock on March 15, 2012. The grant date fair value of these awards was $38.46 and the aggregate fair value was $58,000. Also on March 15, 2011, the Company awarded pursuant to the 2006 Omnibus Incentive Plan, as Amended and Restated, 1,000 shares of special performance units to an employee with a vesting date of March 15, 2013. The grant date fair value of these awards was $38.46 and the aggregate fair value was $38,000.

These awards can be earned based upon the Company's performance relative to performance conditions established under the programs. These awards are subject to forfeiture, cannot be transferred until three years after their grant date and will be converted into common stock of the Company based upon conversion multiples as defined in the underlying plan. These forfeitable performance share unit awards vest after a three year holding period, unless indicated otherwise by the underlying agreement. The aggregate fair value in the above table is based upon reaching 100% of the performance targets as defined in the underlying plan. The number of shares awarded under the 2009 – 2011 Three Year Incentive Plan was determined using an average grant date fair value of $23.21 over a ten day period in February 2009. The number of shares awarded under the 2010 – 2012 Three Year Incentive Plan was determined using an average grant date fair value of $29.39 over a ten day period in February 2010. The number of shares awarded under the 2011 – 2013 Three Year Incentive Plan was determined using an average grant date fair value of $40.25 over a ten day period in February 2011.

For restricted stock and performance awards granted to employees, the Company recorded compensation expense of $465,000 and $400,000, respectively, for the three month periods ended September 30, 2011 and 2010. For the nine months ended September 30, 2011 and 2010, the Company recorded compensation expense of $1,350,000 and $859,000, respectively, for these awards. Shares issued as a result of restricted stock awards generally are previously issued shares which have been reacquired by the Company and held as Treasury shares or authorized but previously unissued common stock.

The excess tax benefit realized for the tax deduction from stock-based compensation approximated $389,000 and $623,000 for the nine months ended September 30, 2011 and 2010, respectively. This excess tax benefit is included in cash flows from financing activities in the Condensed Consolidated Statements of Cash Flows.

13. RETIREMENT PLANS

Retirement Plans

With the acquisition of Portec Rail, the Company has six plans which cover its hourly and salaried employees in the United States; three defined benefit plans (one active/two frozen) and three defined contribution plans. Employees are eligible to participate in the appropriate plan based on employment classification. Funding for the Company's domestic defined benefit and defined contribution plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA), applicable plan policy and investment guidelines. The Company policy is to contribute at least the minimum funding standards of ERISA.

Table of Contents

Portec Rail maintains two defined contribution plans for its employees in Canada, as well as a post-retirement benefit plan. In the United Kingdom, Portec Rail maintains both a defined contribution plan and a defined benefit plan. These plans are discussed in further detail below.

United States Defined Benefit Plans

Net periodic pension costs for both plans for the three and nine month periods ended September 30, 2011 and 2010 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	In thousands			
Service cost	$8	$7	$23	$20
Interest cost	200	203	600	610
Expected return on plan assets	(191)	(233)	(574)	(697)
Recognized net actuarial loss	28	75	84	223
Net periodic benefit cost	$45	$52	$133	$156

The Company expects to contribute approximately $1,048,000 to its United States defined benefit plans in 2011. For the nine months ended September 30, 2011, the Company contributed approximately $858,000 to these plans.

United Kingdom Defined Benefit Plans

Net periodic pension costs for the United Kingdom defined benefit pension plans are as follows for the three and nine month periods ended September 30, 2011:

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
	In thousands	
Interest cost	$ 66	$ 201
Expected return on plan assets	(72)	(220)
Amortization of transition amount	(12)	(36)
Recognized net actuarial loss	29	85
Net periodic benefit cost	$ 11	$ 30

United Kingdom regulations require trustees to adopt a prudent approach to funding required contributions to defined benefit pension plans. The Company anticipates making contributions of $227,000 to the Portec Rail pension plan during 2011. For the nine months ended September 30, 2011, the Company contributed approximately $170,000 to the Portec Rail Plan.

Defined Contribution Plans

The Company has a defined contribution plan that covers all non-union hourly and all salaried employees. This plan permits both pretax and after-tax employee contributions. Participants can contribute, subject to statutory limitations, between 1% and 75% of eligible pre-tax pay and between 1% and 100% of eligible after-tax pay. The Company's employer match is 100% of the first 1% of deferred eligible compensation and up to 50% of the next 6%, based on

years of service, of deferred eligible compensation, for a total maximum potential match of 4%. The Company may also make discretionary contributions to the Plan. The expense associated with this plan for the three and nine months ended September 30, 2011 was $518,000 and $1,375,000, respectively. The expense associated with this plan for the three and nine months ended September 30, 2010 was $327,000 and $1,109,000, respectively.

The Company also has a defined contribution plan for union hourly employees with contributions made by both the participants and the Company based on various formulas. The expense associated with this active plan for the three months ended September 30, 2011 and 2010 was $17,000 and $8,000, respectively. The expense associated with this active plan for the nine months ended September 30, 2011 and 2010 was $45,000 and $25,000, respectively.

Table of Contents

The Company also maintains several defined contribution benefit plans for its domestic and foreign employees of its wholly-owned subsidiary Portec Rail. Portec Rail's expense associated with these benefit plans for the three and nine months ended September 30, 2011 was $165,000 and $458,000, respectively.

14. FAIR VALUE MEASUREMENTS

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

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

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

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

Cash equivalents. Included within "Cash and cash equivalents" are principally investments in tax-free and taxable money market funds with municipal bond issuances as the underlying securities as well as government agency obligations and corporate bonds. The Company uses quoted market prices to determine the fair value of these investments and they are classified in Level 1 of the fair value hierarchy. The carrying amounts approximate fair value because of the short maturity of the instruments.

IDSI acquisition notes. The Company issued non-interest bearing notes associated with its acquisition of IDSI. The Company determined the fair value of these notes by computing the present value of the note payments using an interest rate formula applicable to the Company's long-term debt. The short-term note is included within "Current maturities of other long-term debt" and is classified in Level 2 of the fair value hierarchy at September 30, 2011. The short-term note was included within "Current maturities of other long-term debt", the long-term note was included within "Other long-term debt" and both were classified in Level 2 of the fair value hierarchy at December 31, 2010.

Table of Contents

The following assets and liabilities of the Company were measured at fair value on a recurring basis subject to the disclosure requirements of ASC Topic 820 at September 30, 2011 and December 31, 2010:

		Fair Value Measurements at Reporting Date Using		
	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		In thousands		
Assets				
Money market funds	$ 23,400	$ 23,400	$ 0	$ 0
Cash equivalents at fair value	23,400	23,400	0	0
Total Assets	$ 23,400	$ 23,400	$ 0	$ 0
Liabilities				
IDSI acquisition short-term note	$ (940)	$ 0	$ (940)	$ 0
Total current maturities of other long-term debt	(940)	0	(940)	0
Total Liabilities	$ (940)	$ 0	$ (940)	$ 0

		Fair Value Measurements at Reporting Date Using		
	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		In thousands		
Assets				