

### Business Description

L.B. Foster Company is a manufacturer and distributor of products for the transportation, construction, utility, and energy markets. The company supplies products to industries requiring rail and rail accessories; sheet, pipe and H piling; bridge decking and highway products; precast concrete buildings; and threaded and coated pipe.

### Stock Data

Price	\$26.39
52Wk High	\$48.98
52Wk Low	\$20.00
3mo. Daily Volume	139,000
Market Capitalization	\$270
Shares Outstanding	10.8 Mil.
Inside Ownership	4%
Dividend Yield	NA
Book Value	\$20.14
Net Cash per Share	\$8.64
EV-to-Sales - TTM	0.34
EV-to-EBITDA - TTM	4.1x

### Financial Data

	Old	New	Old	New
EPS	FY-08E	FY-08E	FY-09E	FY-09E
Q1-Mar	\$ .36A	\$ .36A	\$0.41	\$0.30
Q2-Jun	\$ .69A	\$ .69A	\$0.74	\$0.64
Q3-Sep	\$ .76A	\$ .76A	\$0.75	\$0.76
Q4-Dec	\$ .45E	\$ .55A	\$0.50	\$0.60
FY-Dec	\$2.25	2.36*	\$2.40	\$2.30
P/E		12.0		11.0
*excludes one-time gains of \$.21				
Revenue	\$484.0	\$513.0	\$509.0	\$501.0
% Chg	-4.9%	3.5%	5.2%	-2.4%
EBITDA	\$46.0	\$48.2	\$49.0	\$46.0
ROIC	20.6%	21.0%	20.1%	16.5%
Cash	\$110.0	\$115.0	\$123.0	\$105.0
Assets	\$335.0	\$331.0	\$364.0	\$322.0
Debt	\$20.0	\$22.0	\$15.0	\$23.0
Equity	\$228.0	\$217.0	\$254.0	\$241.0

Note: Figures in \$millions except per share data

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# LB Foster

**L.B. FOSTER COMPANY**  
**NASDAQ: FSTR**  
**PRICE: \$26.39**  
**February 2, 2009**

**Q4 EPS of \$.55 Beat Our Estimate of \$.45 and consensus estimate of \$.49 due to higher than expected sales levels.**

**Total sales increased 26% Yoy to \$143.7 million vs. our estimate of \$115 million and consensus of \$116.5 million. All three product lines reported Yoy sales increases led by a 48.7% increase in construction products.**

**Gross margin declined 370 basis points Yoy due to LIFO charge of \$4.9 million. The company anticipates margin pressure for the first half of 2009.**

**Backlog declined 4.1% Yoy.**

**The company's balance sheet remains strong with Net Cash of \$93.3 million (\$9/share). The company continues to explore acquisition opportunities.**

**\$13.5 million in share repurchases still authorized.**

**The company remains cautious about 2009 as certain segments of the business have been negatively impacted by the macro economy. The company has implemented cost-saving measures.**

**We have lowered our FY09 EPS estimate from \$2.40 to \$2.30 due to limited visibility coupled with margin risk.**

FOSTER L B CO  
as of 26-Jan-2009



#### Q4 Results Better Than Expected

Q4 EPS of \$.55 beat our estimate of \$.45 as sales of \$143.7 million exceeded our estimate of \$115 million. The company's product lines reported the following Yoy sales increases: Construction (+48.7%), Rail (9.2%), and Tubular (6.6%). Piling sales, the largest component of construction revenue, increased 67% Yoy as three major projects totaling \$19.5 million shipped in the quarter. Rail products were led by new rail sales which increased 77% Yoy. Concrete tie sales declined 6% and relays sales decreased 6%. The latter two product types are expected to continue experiencing market softness in the near future. The company expects concrete tie production to decline approximately 15% in 2009. The tubular products division performed well led by coated product sales. The strong Energy market continues to drive sales. While threaded products were down Yoy for the quarter, its annual sales were the highest since 1991. Total gross margin declined 370 basis points Yoy due to a LIFO charge of \$4.9 million. Inventory management continues to be an ongoing risk factor for the company. SG&A for the quarter increased 23.9% Yoy principally from salary increases and bad debt. SG&A did decline as a percentage of sales from 8.2% to 8%. Headcount now stands at approximately 600 versus 750 a year ago with the majority of headcount reductions occurring at the plant level. The 4<sup>th</sup> quarter is typically seasonally soft in terms of bookings for the company. November was especially soft but the company witnessed a pick-up in December bookings.

#### Outlook

The company remains cautious about FY09 due to lack of visibility. Inventory management and margin compression remain the predominant risk factors. Although management is generally disappointed with the level of infrastructure spending contained within the stimulus bill, we believe the company should benefit from this spending most likely in the back half of the year. The rail division appears to have the most downside risk going forward with cap ex spending by railroads predicted to be flat or down for 2009 coupled with the company's announcement of decreased concrete tie production for 2009. The company is proactively demonstrating cost control. A wage freeze on salaried employees has been implemented in addition to specific cost category cut-backs. Cap Ex spending plans for 2009 have been reduced to \$5 million. Additionally, the CEO has reduced his salary by 10%. We have amended our FY09 estimates slightly downward to account for limited visibility and general elevated risk levels due to the macro economy. The company is well equipped to contain earnings erosion via its share repurchase program, cost containment measures, and possible accretive acquisitions. The project nature of the company's business makes revenue forecasting more problematic. The balance sheet remains strong with \$93 million in net cash. An additional \$13.5 million in share repurchases remains authorized. The stock is presently trading at lower EV/Sales and EV/EBITDA multiples than its peer group.

#### Peer Group Comparison:

Ticker	Name	Price	EV /	EV /	Price /	CY 2009	CY
			Sales	EBITDA	BV	P/E	2010E
STLD	Steel Dynamics	\$10.62	0.56	4.4	1.3	6.9	5.1
NWPX	Northwest Pipe	\$35.26	1.03	7.5	1.3	11.1	11.0
TRN	Trinity Industries	\$11.51	0.61	3.5	0.5	3.2	7.0
PRPX	Portec Rail Products	\$7.25	0.74	5.6	1.1	9.5	9.1
KOP	Koppers	\$16.20	0.52	4.0	NA	5.8	6.8
CAT	Caterpillar	\$30.85	1.02	8.2	3.2	12.0	12.1
	Median		<b>0.68</b>	<b>5.0</b>	<b>1.3</b>	<b>8.2</b>	<b>8.0</b>
<b>FSTR*</b>	<b>L.B. Foster</b>	<b>\$26.39</b>	<b>0.34</b>	<b>4.1</b>	<b>1.3</b>	<b>11.5</b>	<b>NA</b>

Prices as of 1/30/09

\*EBITDA and EPS excludes Q1-08 one-time gains

Income Statement (in millions)	2003	2004	2005	2006	2007	Q1-08	Q2-08	Q3-08	Q4-08	2008	Q1-09E	Q2-09E	Q3-09E	Q4-09E	2009E
Sales	\$264.3	\$297.9	\$353.5	\$389.8	\$509.0	\$93.4	\$129.8	\$145.5	\$143.7	\$512.5	\$89.9	\$123.2	\$143.7	\$144.6	\$501.4
COGS	\$232.5	\$267.3	\$313.5	\$338.2	\$432.6	\$77.8	\$107.9	\$122.8	\$123.8	\$432.4	\$75.8	\$102.9	\$121.4	\$124.3	\$424.5
Gross Profit	\$31.7	\$30.6	\$40.0	\$51.6	\$76.4	\$15.6	\$21.9	\$22.7	\$19.9	\$80.1	\$14.1	\$20.3	\$22.3	\$20.2	\$77.0
S G&A Expense	\$26.9	\$27.9	\$31.1	\$33.7	\$37.4	\$9.4	\$10.0	\$10.1	\$11.5	\$40.9	\$9.5	\$10.0	\$10.2	\$10.7	\$40.4
EBIT	\$4.8	\$2.7	\$8.9	\$17.9	\$39.0	\$6.3	\$11.9	\$12.6	\$8.4	\$39.2	\$4.6	\$10.3	\$12.1	\$9.5	\$36.6
Interest Expense	\$2.3	\$1.8	\$2.5	\$3.4	\$4.0	\$0.6	\$0.5	\$0.5	\$0.4	\$1.9	\$0.4	\$0.4	\$0.3	\$0.3	\$1.4
Other Income, Net	\$1.3	\$1.5	\$1.3	\$1.2	\$2.0	\$0.7	\$0.7	\$0.5	\$0.6	\$2.5	\$0.6	\$0.6	\$0.7	\$0.7	\$2.6
Pretax Income	\$3.9	\$2.4	\$7.7	\$15.8	\$36.9	\$6.4	\$12.2	\$12.6	\$8.6	\$39.7	\$4.8	\$10.5	\$12.5	\$9.9	\$37.8
Income Tax	\$1.7	\$0.9	\$2.3	\$5.1	\$11.0	\$2.3	\$4.5	\$4.5	\$2.9	\$14.2	\$1.7	\$3.8	\$4.5	\$3.6	\$13.6
Net Income	\$2.2	\$1.5	\$5.4	\$10.7	\$25.0	\$4.1	\$7.7	\$8.1	\$5.7	\$25.5	\$3.1	\$6.7	\$8.0	\$6.4	\$24.2
Shares Outstanding-Diluted	9.7	10.3	10.4	10.8	11.0	11.1	11.0	10.7	10.4	10.8	10.4	10.5	10.5	10.6	10.5
EPS - Diluted	\$0.22	\$0.14	\$0.52	\$0.99	\$2.28	\$0.36	\$0.69	\$0.76	\$0.55	\$2.36	\$0.30	\$0.64	\$0.76	\$0.60	\$2.30
% Change	NA	-34.4%	261.4%	90.2%	129.9%	28.4%	10.6%	18.3%	-32.3%	3.5%	-18.6%	-7.4%	0.4%	9.5%	-2.4%
<b>% of Sales</b>															
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	88.0%	89.7%	88.7%	86.8%	85.0%	83.3%	83.1%	84.4%	86.2%	84.4%	84.3%	83.5%	84.5%	86.0%	84.7%
Gross Profit	12.0%	10.3%	11.3%	13.2%	15.0%	16.7%	16.9%	15.6%	13.8%	15.6%	15.7%	16.5%	15.5%	14.0%	15.3%
S G&A Expense	10.2%	9.4%	8.8%	8.6%	7.3%	10.0%	7.7%	6.9%	8.0%	8.0%	10.6%	8.1%	7.1%	7.4%	8.1%
EBIT	1.8%	0.9%	2.5%	4.6%	7.7%	6.7%	9.2%	8.7%	5.8%	7.6%	5.1%	8.4%	8.4%	6.6%	7.3%
Interest Expense	0.9%	0.6%	0.7%	0.9%	0.8%	0.6%	0.4%	0.3%	0.3%	0.4%	0.4%	0.3%	0.2%	0.2%	0.3%
Other Income, Net	0.5%	0.5%	0.4%	0.3%	0.4%	0.7%	0.6%	0.3%	0.4%	0.5%	0.7%	0.5%	0.5%	0.5%	0.6%
Pretax Income	1.5%	0.8%	2.2%	4.1%	7.3%	6.8%	9.4%	8.7%	6.0%	7.8%	5.4%	8.5%	8.7%	6.9%	7.5%
Income Tax	43.5%	38.4%	29.8%	32.1%	29.7%	36.2%	37.0%	35.7%	33.7%	35.8%	36.0%	36.0%	36.0%	36.0%	36.0%
Net Income	0.8%	0.5%	1.5%	2.7%	4.9%	4.3%	5.9%	5.6%	4.0%	5.0%	3.4%	5.5%	5.6%	4.4%	4.8%
<b>Revenue by Segment</b>															
Rail Products	\$126.8	\$144.5	\$157.8	\$189.5	\$260.8	\$45.8	\$60.8	\$65.6	\$62.3	\$234.5	\$36.6	\$51.7	\$59.0	\$56.1	\$203.4
Construction Products	\$121.6	\$136.5	\$174.9	\$180.5	\$211.6	\$40.2	\$60.0	\$69.8	\$72.9	\$242.9	\$46.2	\$63.0	\$75.0	\$80.2	\$264.4
Tubular Products	\$15.9	\$16.9	\$20.8	\$19.8	\$36.6	\$7.5	\$9.0	\$10.1	\$8.5	\$35.1	\$7.1	\$8.6	\$9.6	\$8.3	\$33.6
Total	\$264.3	\$297.9	\$353.5	\$389.8	\$509.0	\$93.4	\$129.8	\$145.5	\$143.7	\$512.5	\$89.9	\$123.2	\$143.7	\$144.6	\$501.4
<b>Revenue % by Segment</b>															
Rail Products	48.0%	48.5%	44.6%	48.6%	51.2%	49.0%	46.8%	45.1%	43.4%	45.8%	40.7%	41.9%	41.1%	38.8%	40.6%
Construction Products	46.0%	45.8%	49.5%	46.3%	41.6%	43.0%	46.2%	48.0%	50.7%	47.4%	51.4%	51.1%	52.2%	55.5%	52.7%
Tubular Products	6.0%	5.7%	5.9%	5.1%	7.2%	8.0%	6.9%	7.0%	5.9%	6.9%	7.9%	6.9%	6.7%	5.8%	6.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Revenue Segment (Year / Year)</b>															
Rail Products	-1.1%	14.0%	9.2%	20.1%	37.7%	-27.5%	-23.3%	6.8%	9.2%	-10.1%	-20.0%	-15.0%	-10.0%	-10.0%	-13.2%
Construction Products	4.1%	12.3%	28.2%	3.2%	17.2%	-2.9%	1.9%	12.0%	48.8%	14.8%	15.0%	5.0%	7.5%	10.0%	8.9%
Tubular Products	22.9%	6.1%	23.3%	-4.8%	84.7%	22.2%	-13.6%	-15.8%	6.0%	-4.1%	-5.0%	-5.0%	-5.0%	-2.0%	-4.3%
Total	2.4%	12.7%	18.7%	10.3%	30.6%	-15.6%	-12.6%	7.2%	26.0%	0.7%	-3.8%	-5.1%	-1.3%	0.6%	-2.1%
<b>Backlog by Segment</b>															
Rail Products	\$37.5	\$29.1	\$56.6	\$64.1	\$61.6	\$57.5	\$60.6	\$72.4							
Construction Products	\$67.1	\$67.7	\$71.4	\$66.1	\$70.3	\$110.2	\$121.7	\$97.0							
Tubular Products	\$1.0	\$3.2	\$1.5	\$11.1	\$6.4	\$6.0	\$9.9	\$9.4							
Total	\$105.7	\$100.1	\$129.5	\$141.3	\$138.3	\$173.7	\$192.2	\$178.8	\$132.6						

Fiscal Year End - December

(\$ in millions, except per share data)

**Note: FY08 EPS excludes one-time gain of \$0.21 in Q1FY08**

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# 21st Century Equity Research

Balance Sheet	2003	2004	2005	2006	2007	Q1-08	Q2-08	Q3-08	Q4-08	2008	Q1-09E	Q2-09E	Q3-09E	Q4-09E	2009E
<b>Assets</b>															
Cash	\$4.1	\$0.3	\$1.6	\$3.0	\$121.1	\$117.2	\$107.6	\$111.8	\$115.0	\$115.0	\$110.0	\$105.0	\$105.0	\$105.0	\$105.0
Accounts Receivable	\$34.8	\$39.9	\$47.4	\$66.0	\$53.6	\$45.7	\$73.9	\$69.5	\$64.3	\$64.3	\$48.3	\$71.6	\$70.9	\$68.1	\$68.1
Inventories	\$36.9	\$42.0	\$68.9	\$98.0	\$102.4	\$100.7	\$105.4	\$120.3	\$102.9	\$102.9	\$98.1	\$100.5	\$119.7	\$104.9	\$104.9
Other Current Assets	\$2.7	\$2.1	\$2.5	\$6.5	\$7.2	\$5.6	\$5.1	\$4.9	\$4.1	\$4.1	\$4.0	\$3.8	\$3.6	\$3.2	\$3.2
Current Assets	\$78.5	\$84.3	\$120.4	\$173.5	\$284.4	\$269.2	\$292.0	\$306.5	\$286.3	\$286.3	\$257.4	\$280.9	\$299.2	\$281.3	\$281.3
Net Property, Plant, and Equipment	\$33.1	\$30.4	\$40.2	\$52.0	\$44.1	\$44.1	\$42.9	\$41.4	\$40.0	\$40.0	\$39.0	\$38.0	\$37.0	\$36.0	\$36.0
Goodwill	\$0.4	\$0.4	\$0.6	\$0.4	\$0.4	\$0.4	\$0.4	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.4
Other Assets	\$19.1	\$19.1	\$17.0	\$18.0	\$1.8	\$1.8	\$1.8	\$1.8	\$4.6	\$4.6	\$1.8	\$2.8	\$3.8	\$4.8	\$4.8
Total Assets	\$131.2	\$134.1	\$178.3	\$243.9	\$330.8	\$315.5	\$337.1	\$350.0	\$331.2	\$331.2	\$298.5	\$322.0	\$340.3	\$322.4	\$322.5
<b>Liabilities and Stockholders' Equity</b>															
Accounts Payable	\$23.9	\$27.7	\$42.8	\$55.0	\$53.5	\$39.9	\$65.8	\$76.7	\$70.6	\$70.6	\$44.0	\$62.7	\$75.8	\$70.9	\$70.9
Other Current Liabilities	\$7.2	\$9.1	\$13.8	\$13.0	\$24.1	\$13.8	\$17.1	\$18.4	\$7.8	\$7.8	\$8.0	\$10.0	\$11.0	\$10.0	\$10.0
Short-term Debt	\$0.6	\$0.6	\$7.6	\$3.8	\$6.2	\$6.2	\$5.9	\$6.0	\$5.8	\$5.8	\$5.6	\$5.5	\$5.5	\$5.4	\$5.4
Current Liabilities	\$31.7	\$37.5	\$64.3	\$71.8	\$83.8	\$59.9	\$88.8	\$101.1	\$84.2	\$84.2	\$57.6	\$78.2	\$92.3	\$86.3	\$86.3
Long-term Debt	\$20.9	\$17.4	\$29.3	\$54.6	\$16.2	\$15.5	\$14.8	\$14.1	\$21.7	\$21.7	\$20.0	\$21.0	\$22.0	\$23.0	\$23.0
Other Liabilities	\$8.1	\$5.5	\$4.7	\$15.5	\$17.0	\$18.1	\$17.2	\$16.0	\$7.9	\$7.9	\$7.9	\$10.0	\$12.0	\$12.0	\$12.0
Total Liabilities	\$60.6	\$60.4	\$98.3	\$141.9	\$116.9	\$93.5	\$120.8	\$131.2	\$113.8	\$113.8	\$85.5	\$109.2	\$126.3	\$121.3	\$121.3
Shareholder Equity	\$70.5	\$73.7	\$80.0	\$102.0	\$213.8	\$222.1	\$216.4	\$218.8	\$217.4	\$217.4	\$220.5	\$227.2	\$235.2	\$241.6	\$241.6
Total Liabilities and Equity	\$131.2	\$134.1	\$178.3	\$243.9	\$330.8	\$315.5	\$337.1	\$350.0	\$331.2	\$331.2	\$306.0	\$336.4	\$361.5	\$362.9	\$362.9
Book Value Per Share	\$7.24	\$7.18	\$7.66	\$9.44	\$19.49	\$19.93	\$19.60	\$20.45	\$20.90	\$20.09	\$21.20	\$21.64	\$22.40	\$22.79	\$23.01
<b>Asset Utilization and Efficiency</b>															
Accounts Receivable Turnover	7.1	8.0	8.1	6.9	8.5	7.5	8.7	8.1	8.6	8.7	7.5	8.7	8.1	8.6	7.6
Days' Sales in Receivables Outstanding	48.0	48.9	48.9	61.8	38.4	44.6	51.9	43.6	40.8	45.8	46.0	53.0	45.0	43.0	49.6
Inventory Turnover	6.3	6.1	4.6	3.8	4.4	3.1	4.2	4.4	4.4	3.9	3.2	4.3	4.5	4.5	3.8
Days' Sales in Inventory Outstanding	57.9	57.4	80.3	105.8	86.4	118.1	89.1	89.4	75.8	86.9	118.1	89.1	90.0	77.0	90.2
Accounts Payable Turnover	8.6	8.9	6.9	6.7	7.9	6.7	8.2	6.9	6.7	5.9	6.7	8.2	6.9	6.7	5.8
Days' Purchases in Payables Outstanding	37.5	37.9	49.9	59.4	45.1	53.0	55.6	57.0	52.0	59.6	53.0	55.6	57.0	52.0	56.0
Cash Conversion Cycle (Days)	68.5	68.4	79.3	108.2	79.7	109.7	85.4	76.0	64.6	73.1	109.7	85.4	76.0	64.6	83.8
<b>Capital Structure</b>															
Total Debt-to-Total Capital Ratio	22.8%	19.1%	26.8%	34.9%	7.0%	6.5%	6.4%	6.1%	9.1%	9.1%	8.3%	8.5%	8.6%	8.7%	8.7%
Total Debt-to-Equity Ratio	29.6%	23.6%	36.6%	53.5%	7.6%	7.0%	6.8%	6.4%	10.0%	10.0%	9.1%	9.2%	9.4%	9.5%	9.5%
Fiscal Year End - December															
(\$ in millions, except per share data)															