FOSTER L B CO
Form 10-K
March 11, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

Or

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange On Which Registered**
Common Stock, Par Value $0.01	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o Yes þ No

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. þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. o

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter was $294,215,767.

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

Class	**Outstanding at February 18, 2008**
Common Stock, Par Value $0.01	11,011,495 shares

Documents Incorporated by Reference: Portions of the Proxy Statement prepared for the 2008 annual meeting of stockholders are incorporated by reference in Items 10, 11, 12 and 14 of Part III.

TABLE OF CONTENTS

PART I

Item 1.	Business	3
Item 1A.	Risk Factors	5
Item 1B.	Unresolved Staff Comments	7
Item 2.	Properties	8
Item 3.	Legal Proceedings	8
Item 4.	Submission of Matters to a Vote of Security Holders	9
Item 4A.	Executive Officers of the Registrant	9

PART II

Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	10
Item 6.	Selected Financial Data	13
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 8.	Financial Statements and Supplementary Data	31
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	61
Item 9A.	Controls and Procedures	62
Item 9B.	Other Information	62

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	62
Item 11.	Executive Compensation	63
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	63
Item 13.	Certain Relationships and Related Transactions, and Director Independence	63
Item 14.	Principal Accountant Fees and Services	63

PART IV

Item 15.	Exhibits and Financial Statement Schedules	63
	Financial Statements	63
	Financial Statement Schedule	63
	Exhibits	65
	Signatures	67
	Certifications	

PART I

ITEM 1. *BUSINESS*

Summary Description of Businesses

L. B. Foster Company is a leading manufacturer, fabricator and distributor of products and services for the rail, construction, energy and utility markets. As used herein, Foster or the Company means L. B. Foster Company and its divisions and subsidiaries, unless the context otherwise requires.

For rail markets, Foster provides a full line of new and used rail, trackwork, and accessories to railroads, mines and industry. The Company also designs and produces concrete railroad ties, insulated rail joints, power rail, track fasteners, coverboards and special accessories for mass transit and other rail systems worldwide.

For the construction industry, the Company sells steel sheet piling, H-bearing piling, pipe piling and provides rental sheet piling for foundation requirements. In addition, Foster supplies fabricated structural steel, bridge decking, bridge railing, expansion joints, precast concrete buildings and other products for highway construction and repair.

For tubular markets, the Company supplies pipe coatings for natural gas pipelines and utilities. The Company also produces threaded pipe products for industrial water well and irrigation markets and sells micropiles for construction foundation repair and slope stabilization.

The Company classifies its activities into three business segments: Rail products, Construction products, and Tubular products. Financial information concerning the segments is set forth in Item 8, Note 18. The following table shows for the last three fiscal years the net sales generated by each of the current business segments as a percentage of total net sales.

	Percentage of Net Sales		
	2007	**2006**	**2005**
Rail Products	51%	49%	49%
Construction Products	42%	46%	45%
Tubular Products	7%	5%	6%
	100%	100%	100%

RAIL PRODUCTS

L. B. Foster Company s rail products include heavy and light rail, relay rail, concrete ties, insulated rail joints, rail accessories and transit products. The Company is a major rail products supplier to industrial plants, contractors, railroads, mines and mass transit systems.

The Company sells heavy rail mainly to transit authorities, industrial companies, and rail contractors for railroad sidings, plant trackage, and other carrier and material handling applications. Additionally, the Company sells some heavy rail to railroad companies and to foreign buyers. The Company sells light rail for mining and material handling

applications.

Rail accessories include trackwork, ties, track spikes, bolts, angle bars and other products required to install or maintain rail lines. These products are sold to railroads, rail contractors, industrial customers, and transit agencies and are manufactured within the Company or purchased from other manufacturers.

The Company s Allegheny Rail Products (ARP) division engineers and markets insulated rail joints and related accessories for the railroad and mass transit industries. Insulated joints are manufactured at the Company s facilities in Pueblo, CO and Niles, OH.

The Company s Transit Products division supplies power rail, direct fixation fasteners, coverboards and special accessories primarily for mass transit systems. Most of these products are manufactured by subcontractors and are usually sold by sealed bid to transit authorities or to rail contractors, worldwide.

The Company s Trackwork division produces new and relay trackwork for industrial and export markets.

The Company s CXT subsidiary manufactures engineered concrete railroad ties for the railroad and transit industries at its facilities in Spokane, WA, Grand Island, NE and Tucson, AZ.

CONSTRUCTION PRODUCTS

L. B. Foster Company s construction products consist of sheet, pipe and bearing piling, fabricated highway products, and precast concrete buildings.

Sheet piling products are interlocking structural steel sections that are generally used to provide lateral support at construction sites. Bearing piling products are steel H-beam sections which, in their principal use, are driven into the ground for support of structures such as bridge piers and high-rise buildings. Sheet piling is sold or rented and bearing piling is sold principally to public projects as well as the private sector.

Other construction products consist of precast concrete buildings, sold principally to national and state parks, and fabricated highway products. Fabricated highway products consist principally of fabricated structural steel, bridge decking, aluminum and steel bridge rail and other bridge products, which are fabricated by the Company. The major purchasers of these products are contractors for state, municipal and other governmental projects.

Sales of the Company s construction products are partly dependent upon the level of activity in the construction industry. Accordingly, sales of these products have traditionally been somewhat higher during the second and third quarters than during the first and fourth quarters of each year. However, sales were unusually strong during the fourth quarter of 2006 due to various factors including mild weather that allowed more construction projects to proceed.

TUBULAR PRODUCTS

The Company provides fusion bond and other coatings for corrosion protection on oil, gas and other pipelines. The Company also supplies special pipe products such as water well casing, column pipe, couplings, and related products for agricultural, municipal and industrial water wells. In addition, the Company sells micropiles for construction foundation repair and slope stabilization.

MARKETING AND COMPETITION

L. B. Foster Company generally markets its rail, construction and tubular products directly in all major industrial areas of the United States through a national sales force of 59 people, including outside sales, inside sales, and customer service representatives. The Company maintains 14 sales offices and 15 warehouses, plant and yard facilities located throughout the country. During 2007, approximately 4% of the Company s total sales were for export.

The major markets for the Company s products are highly competitive. Product availability, quality, service and price are principal factors of competition within each of these markets. No other company provides the same product mix to the various markets the Company serves. There are one or more companies that compete with the Company in each product line. Therefore, the Company faces significant competition from different groups of companies.

RAW MATERIALS AND SUPPLIES

Most of the Company s inventory is purchased in the form of finished or semi-finished product. With the exception of relay rail which is purchased from railroads or rail take-up contractors, the Company purchases most of its inventory from domestic and foreign steel producers. There are few domestic suppliers of new rail products and the Company

could be adversely affected if a domestic supplier ceased making such material available to the Company. Additionally, the Company has an agreement with a steel mill to distribute steel sheet piling and bearing pile in North America. The Company also purchases cement and aggregate used in its concrete railroad tie and precast concrete building businesses from a variety of suppliers.

The Company s purchases from foreign suppliers are subject to the usual risks associated with changes in international conditions and to United States laws which could impose import restrictions on selected classes of products and anti-dumping duties if products are sold in the United States below certain prices.

BACKLOG

The dollar amount of firm, unfilled customer orders at December 31, 2007 and 2006 from continuing operations by business segment follows:

	December 31,	
	2007	2006
	In thousands	
Rail Products	$ 61,597	$ 64,113
Construction Products	70,342	66,145
Tubular Products	6,375	11,092
Total from Continuing Operations	$ 138,314	$ 141,350

Approximately 2% of the December 31, 2007 backlog is related to projects that will extend beyond 2008.

RESEARCH AND DEVELOPMENT

The Company s expenditures for research and development are not material.

ENVIRONMENTAL DISCLOSURES

It is not possible to quantify the potential impact of actions regarding environmental matters, particularly for future remediation and other compliance efforts. In the opinion of management, compliance with environmental protection laws will not have a material adverse effect on the financial condition, competitive position, or capital expenditures of the Company. However, the Company s efforts to comply with stringent environmental regulations may have an adverse effect on the Company s future earnings.

EMPLOYEES AND EMPLOYEE RELATIONS

As of January 2008, the Company has 655 employees, of whom 405 are hourly production workers and 250 are salaried employees. Approximately 140 of the hourly paid employees are represented by unions. The Company has not suffered any major work stoppages during the past five years and considers its relations with its employees to be satisfactory.

In October 2007, the Company negotiated the renewal of the collective bargaining agreement with our Spokane, WA workforce represented by the United Steelworkers Local number 338.

Substantially all of the Company s hourly paid employees are covered by one of the Company s noncontributory, defined benefit plans or defined contribution plans. Substantially all of the Company s salaried employees are covered by a defined contribution plan.

ITEM 1A. ***RISK FACTORS***

Forward Looking Statements

We make forward looking statements in this report based upon management s understanding of our business and markets and on information currently available to us. Such statements include information regarding future events and expectations and frequently include words such as believes, expects, anticipates, intends, plans, estimates, or similar expressions.

Forward looking statements include known and unknown risks and uncertainties. Actual future results may differ greatly from these statements and expectations that we express in this report. We encourage all readers to carefully consider the Risk Factors below and all the information presented in our 2007 Annual Report on Form 10-K and caution you not to rely unduly on any forward looking statements.

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.

Risks and Uncertainties

Markets and Competition

We face strong competition in all of the markets in which we participate. Our response to competitor pricing actions and new competitor entries into our product lines, could negatively impact our overall pricing in the marketplace. Efforts to improve pricing could negatively impact our sales volume in all product categories. Significant negative developments in these areas could adversely affect our financial results and condition.

Customer Reliance

Foster could be adversely affected by changes in the business or financial condition of a customer or customers. A significant downturn in the business or financial condition of a customer or customers could impact our results of operations and /or financial condition.

The Company s CXT Rail operation and Allegheny Rail Products division are dependent on the Union Pacific Railroad (UPRR) for a significant portion of their business. The CXT Rail operation was awarded a long-term contract from the UPRR for the supply of prestressed concrete railroad ties. CXT Rail expanded and modernized its Grand Island, NE plant in 2005, and completed construction of a new facility in Tucson, AZ in 2006 to accommodate the contract s requirements. UPRR has agreed to purchase minimum annual quantities from the Grand Island, NE facility through December 2010, and the Tucson, AZ facility through December 2012.

A substantial portion of our operations are heavily dependent on governmental funding of infrastructure projects. Many of these projects have Buy America or Buy American provisions. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on our operating results. Additionally, government actions concerning Buy America provisions, taxation, tariffs, the environment, or other matters could impact our operating results.

Supplier Reliance

In our rail and piling distributed products businesses, we rely on one or two suppliers for key products that we sell to our customers. A significant downturn in the business of one of these suppliers, a disruption in their manufacturing operations, an unwillingness to continue to sell to us or a disruption in the availability of existing and new piling and rail products could adversely impact our financial results.

A significant portion of our Construction segment net sales and profits are related to the purchase and resale of piling products. In July 2007, Chaparral Steel Company, our primary supplier of steel sheet piling and bearing pile announced that it had entered into an agreement to be acquired by Gerdau Ameristeel Corporation. This transaction closed in September 2007. The Company does not believe there will be an effect on our existing business as the primary supplier relationship with Gerdau Ameristeel Corporation has not been changed as a result of the agreement. If we are unable to continue to distribute the products of Gerdau Ameristeel Corporation, our results of operations and liquidity could be adversely affected.

Raw material costs and availability

Most of Foster s businesses utilize steel as a significant product component. The steel industry is cyclical and prices as well as availability are subject to international market forces. We also use significant amounts of cement and aggregate in our concrete railroad tie and our precast concrete building businesses. Cement and aggregate prices have been increasing over recent years. This has not yet had a significant impact on the Company, but it could present problems for our facility in Tucson, AZ. Our financial results could be adversely affected if prices or availability of these materials were to change in a significantly unfavorable manner.

Sale of our investment in the DM&E Railroad

A merger agreement was consummated between the Dakota, Minnesota and Eastern Railroad (DM&E) and the Canadian Pacific Railway Limited (CP) in October 2007. More information about the DM&E and the merger agreement with the CP can be found on page 25 of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Certain of our operating groups sold, from time to time, railroad and construction related materials to the DM&E. As a result of the merger agreement, certain of this business may be provided to the DM&E directly from other suppliers through existing CP relationships. The total amount of revenues for the years ended December 31, 2007, 2006 and 2005 was approximately $18.7 million, $17.2 million, and $9.5 million, respectively. While these revenues generated lower than typical gross profit margins, the Company may not be able to successfully mitigate the impact of this potential loss of business.

Union Workforce and Labor Relations

Three of the Company s manufacturing facilities are staffed by employees represented by labor unions. These 141 employees are currently working under two separate collective bargaining agreements. In October 2007, we negotiated the renewal of the collective bargaining agreement with our Spokane, WA workforce represented by the United Steelworkers Local number 338. This agreement, covering approximately 110 employees, expires in September 2011.

The collective bargaining agreement related to our bridge products fabricating facility in Bedford, PA represented by the Shopmen s Local Union number 527 expires in March 2008. We may not be able to successfully negotiate the renewal of this agreement.

Additionally, the existing collective bargaining agreements may not prevent a work stoppage at L. B. Foster s facilities.

Legal Contingencies

Changes in our expectations of the outcome of certain legal actions could vary materially from our current expectations and adversely affect our financial results and/or financial condition.

Unexpected Events

Unexpected events including fires or explosions at facilities, natural disasters, war, unplanned outages, equipment failures, failure to meet product specifications, or a disruption in certain of our operations may cause our operating costs to increase or otherwise impact our financial performance.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. *PROPERTIES*

The location and general description of the principal properties which are owned or leased by L. B. Foster Company, together with the segment of the Company s business using the properties, are set forth in the following table:

Location	Function	Acres	Business Segment	Lease Expires
Bedford, PA	Bridge component fabricating plant.	10	Construction	Owned
Birmingham, AL	Pipe coating facility.	32	Tubular	2017
Georgetown, MA	Bridge component fabricating plant.	11	Construction	Owned
Grand Island, NE	CXT concrete tie plant.	9	Rail	2010
Hillsboro, TX	Precast concrete facility.	9	Construction	2012
Houston, TX	Casing, upset tubing, threading, heat treating and painting. Yard storage.	63	Tubular, Rail and Construction	Owned
Niles, OH	Rail fabrication. Trackwork manufacturing. Yard storage.	35	Rail	Owned
Petersburg, VA	Piling storage facility.	48	Construction	Owned
Pueblo, CO	Rail joint manufacturing and lubricator assembly.	9	Rail	Owned
Spokane, WA	CXT concrete tie plant.	13	Rail	2008
Spokane, WA	Precast concrete facility.	5	Construction	2012
Tucson, AZ	CXT concrete tie plant.	19	Rail	2012

The lease covering the Spokane, WA CXT concrete tie plant expires in July 2008. The Company anticipates that this lease will be extended prior to its expiration.

In March 2008, the Company closed an agreement to sell approximately 63 acres owned by the Company in Houston, TX for approximately $6.5 million. Upon the closing, the Company leased back approximately 20 acres of the real estate to be used by its threaded product operations. More information about this agreement can be found on page 15 of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Including the properties listed above, the Company has 14 sales offices, including its headquarters in Pittsburgh, PA, and 15 warehouses, plant and yard facilities located throughout the country. The Company s facilities are in good condition.

ITEM 3. *LEGAL PROCEEDINGS*

In 2000, the Company s subsidiary sold concrete railroad crossing panels to a general contractor on a Texas transit project. Certain panels deteriorated and the owner replaced the panels provided by the subsidiary. An administrative judge found that the general contractor was liable to the owners for alleged defects, among other matters, in the panels. In the first quarter of 2008 the Company negotiated a settlement with the contractor releasing any claims that the contractor may have against the Company in exchange for the Company forgiving an account receivable of approximately $0.3 million and paying the contractor $50,000. These amounts were fully reserved at December 31,

2007.

In the second quarter of 2004, a gas company filed a complaint against the Company in Allegheny County, PA, alleging that in 1989 the Company had applied epoxy coating on 25,000 feet of pipe and that, as a result of inadequate surface preparation of the pipe, the coating had blistered and deteriorated. The Company does not believe that the gas company s alleged problems are the Company s responsibility. Although no assurances can be given, the Company believes that it has meritorious defenses to such claims and will vigorously defend against such a suit.

ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

None.

ITEM 4A. ***EXECUTIVE OFFICERS OF THE REGISTRANT***

Information concerning the executive officers of the Company is set forth below. With respect to the period prior to August 18, 1977, references to the Company are to the Company s predecessor, Foster Industries, Inc.

Name	Age	Position
Lee B. Foster II	61	Chairman of the Board
Stan L. Hasselbusch	60	President and Chief Executive Officer
Merry L. Brumbaugh	50	Vice President Tubular Products
Samuel K. Fisher	55	Senior Vice President Rail
Donald L. Foster	52	Senior Vice President Construction Products
Kevin R. Haugh	51	Vice President & General Manager CXT Concrete Products
John F. Kasel	43	Senior Vice President Operations and Manufacturing
Brian H. Kelly	48	Vice President Human Resources
Gregory W. Lippard	39	Vice President Rail Product Sales
Linda K. Patterson	58	Controller
David J. Russo	49	Senior Vice President, Chief Financial Officer and Treasurer
David L. Voltz	55	Vice President, General Counsel and Secretary

Mr. Lee Foster has been a director of the Company since 1990 and he has been Chairman of the Board since 1998. He was the Chief Executive Officer of the Company from May 1990 until January 2002.

Mr. Hasselbusch has been Chief Executive Officer and a director of the Company since January 2002, and President of the Company since March 2000. He served as Vice President Construction and Tubular Products from December 1996 to December 1998 and as Chief Operating Officer from January 1999 until he was named Chief Executive Officer in January 2002.

Ms. Brumbaugh was elected Vice President Tubular Products in November 2004, having previously served as General Manager, Coated Products since 1996. Ms. Brumbaugh has served in various capacities with the Company since her initial employment in 1980.

Mr. Fisher was elected Senior Vice President Rail in October 2002, having previously served as Senior Vice President Product Management since June 2000. From October 1997 until June 2000, Mr. Fisher served as Vice President Rail Procurement. Prior to October 1997, Mr. Fisher served in various other capacities with the Company since his employment in 1977.

Mr. Donald Foster was elected Senior Vice President Construction Products in February 2005, after having served as Vice President Piling Products since November 2004 and General Manager of Piling since September, 2004. Prior to joining the Company, Mr. Foster was President of Metalsbridge, a financed supply chain logistics entity. He served U.S. Steel Corporation as an officer from 1999 to 2003. During that time, Mr. Foster functioned as Vice President

International, President of UEC Technologies and President, United States Steel International, Inc. Since joining U.S. Steel Corporation in 1979 he served in a number of general management roles in the distribution and construction markets.

Mr. Haugh was elected Vice President and General Manager CXT Concrete Products in February 2008. Prior to joining the Company, Mr. Haugh served as Executive Vice President of CANAC, Inc., a subsidiary of Savage Services, and Senior Vice President of Savage Services from 2001 to 2008. His career also included President of Railserve, Inc. prior to 2001.

Mr. Kasel was elected Senior Vice President Operations and Manufacturing in May 2005 having previously served as Vice President Operations and Manufacturing since April 2003. Mr. Kasel served as Vice President of

Operations for Mammoth, Inc., a Nortek company from 2000 to 2003. His career also included General Manager of Robertshaw Controls and Operations Manager of Shizuki America prior to 2000.

Mr. Kelly was elected Vice President, Human Resources in October 2006 after joining the organization in September 2006. Prior to joining the Company, Mr. Kelly headed Human Resources for 84 Lumber Company from June 2004. Previously, he served as a Director of Human Resources for American Greetings Corp from June 1994 to June 2004, and he began his career with Nabisco in 1984, serving in progressively responsible generalist human resources positions in both plants and the headquarters.

Mr. Lippard was elected Vice President Rail Product Sales in June 2000. Prior to re-joining the Company in 2000, Mr. Lippard served as Vice President International Trading for Tube City, Inc. from June 1998. Mr. Lippard served in various other capacities with the Company since his initial employment in 1991.

Ms. Patterson was elected Controller in February 1999, having previously served as Assistant Controller since May 1997 and Manager of Accounting since March 1988. Prior to March 1988, Ms. Patterson served in various other capacities with the Company since her employment in 1977.

Mr. Russo was elected Senior Vice President, Chief Financial Officer and Treasurer in December 2002, having previously served as Vice President and Chief Financial Officer since July 2002. Mr. Russo was Corporate Controller of WESCO International Inc., a distributor of electrical and industrial MRO supplies and integrated supply services, from 1999 until joining the Company in 2002. Mr. Russo also served as Corporate Controller of Life Fitness Inc., an international designer, manufacturer and distributor of aerobic and strength training fitness equipment.

Mr. Voltz was elected Vice President, General Counsel and Secretary in December 1987. Mr. Voltz joined the Company in 1981.

Officers are elected annually at the organizational meeting of the Board of Directors following the annual meeting of stockholders.

Code of Ethics

L. B. Foster Company has a code of ethics applicable to all directors and employees, including its Chief Executive Officer, Chief Financial Officer and Controller. The code of ethics is posted on the Company s website, *www.lbfoster.com*. The Company intends to satisfy the disclosure requirement regarding certain amendments to, or waivers from, provisions of its code of ethics by posting such information on the Company s website.

PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Stock Market Information

The Company had 550 common shareholders of record on January 31, 2008. Common stock prices are quoted daily through the NASDAQ Global Select Market quotation service (Symbol FSTR). The quarterly high and low bid price quotations for common shares (which represent prices between broker-dealers and do not include markup, markdown or commission and may not necessarily represent actual transactions) follow:

Quarter	2007 High	2007 Low	2006 High	2006 Low
First	$ 25.92	$ 18.21	$ 19.90	$ 14.59
Second	28.68	20.41	26.15	18.93
Third	44.72	29.42	23.73	16.06
Fourth	57.97	38.15	25.91	16.43

Dividends

No cash dividends were paid on the Company s Common stock during 2007 and 2006, and the Company has no plan to pay dividends in the foreseeable future. The Company s ability to pay cash dividends is limited by its revolving credit agreement.

Performance Graph

The following table compares total shareholder returns for the Company over the last five years to the NASDAQ Composite Index and the Company s Peer Group assuming a $100 investment made on December 31, 2002. Each of the three measures of cumulative total return assumes reinvestment of dividends. The stock performance shown on the graph below is not necessarily indicative of future price performance.

The Company s Peer Group is composed of Michael Baker Corp., A.M. Castle & Co., Greenbriar Cos., Inc., Northwest Pipe Co, Texas Industries Inc. and Wabtec Corporation. The Company s peer group was established by selecting similar companies in the rail, construction and steel industries.

Included in the Company s Peer Group in 2006 but not in 2007 were Hanson PLC and Oregon Steel Mills Inc. Hanson PLC was acquired by foreign corporation, HeidelbergCement AG, and stopped trading publicly in the United States in August 2007. Oregon Steel Mills Inc. was also acquired by a foreign corporation, Evraz Group S. A., in January 2007 which is listed on the London Stock Exchange.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among L.B. Foster Company, The NASDAQ Composite Index
And A Peer Group

* $100 invested on 12/31/02 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

	Cumulative Total Return					
	12/02	**12/03**	**12/04**	**12/05**	**12/06**	**12/07**
L.B. FOSTER COMPANY	100.00	149.77	219.35	342.72	597.00	1,191.94
NASDAQ COMPOSITE INDEX	100.00	149.75	164.64	168.60	187.83	205.22
PEER GROUP	100.00	137.20	217.96	250.21	292.96	323.75

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2007 with respect to compensation plans under which equity securities of the Company are authorized for issuance.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by shareholders	349,900	$ 5.52	509,375
Equity compensation plans not approved by shareholders			
Total	349,900	$ 5.52	509,375

The Company awarded shares of its common stock to its outside directors on a biannual basis from June 2000 through January 2003 under an arrangement not approved by the Company s shareholders. A total of 22,984 shares of common stock were so awarded and this program has been terminated. At the Company s 2003 Annual Shareholders Meeting, a new plan was approved by the Company s shareholders under which outside directors received 2,500 shares of the Company s common stock at each annual shareholder meeting at which such outside director was elected or re-elected, commencing with the Company s 2003 Annual Shareholders Meeting. Through 2005 there were 30,000 shares issued under this plan. This plan was discontinued on May 24, 2006 when the Company s shareholders approved the 2006 Omnibus Incentive Plan. Under the 2006 Omnibus Incentive Plan, non-employee directors automatically are awarded 3,500 shares or a lesser amount determined by the directors of the Company s common stock at each annual shareholder meeting at which such non-employee director is elected or re-elected, commencing May 24, 2006. Non-employee directors will be awarded 1,750 shares in 2008. Through December 31, 2007 there were 35,000 fully vested shares issued under the 2006 Omnibus Incentive Plan.

ITEM 6. ***SELECTED FINANCIAL DATA***

Income Statement Data	2007(1)	2006(2)	2005(3)(4)	2004(3)(5)	2003(3)(6)
	Year Ended December 31, (All amounts are in thousands, except per share data)				
Net sales	$ 508,981	$ 389,788	$ 325,990	$ 271,209	$ 238,872
Operating profit	$ 38,980	$ 17,934	$ 8,210	$ 1,780	$ 4,685
Income from continuing operations	$ 110,724	$ 10,715	$ 4,848	$ 889	$ 2,097
(Loss) income from discontinued operations, net of tax	(31)	2,815	586	591	1,343
Net income	$ 110,693	$ 13,530	$ 5,434	$ 1,480	$ 3,440
Basic earnings per common share:					
Continuing operations	$ 10.39	$ 1.03	$ 0.48	$ 0.09	$ 0.22
Discontinued operations	0.00	0.27	0.06	0.06	0.14
Basic earnings per common share	$ 10.39	$ 1.30	$ 0.54	$ 0.15	$ 0.36
Diluted earnings per common share:					
Continuing operations	$ 10.09	$ 0.99	$ 0.46	$ 0.09	$ 0.22
Discontinued operations	0.00	0.26	0.06	0.06	0.14
Diluted earnings per common share	$ 10.09	$ 1.25	$ 0.52	$ 0.14	$ 0.35

(1) 2007 includes $8,472,000 in dividend income and a $122,885,000 pre-tax gain due to the announcement and consummation, respectively, of the sale of the Company s investment in the DM&E.

(2) 2006 includes a $3,005,000 gain from the sale of the Company s former Geotechnical Division which was classified as discontinued operations.

(3) 2005 2003 were restated to reflect the classification of the Company s former Geotechnical Division as discontinued operations.

(4) 2005 includes a benefit of $450,000 due to the release of a valuation allowance related to the Company s ability to utilize state net operating losses and other state tax incentives prior to their expiration.

(5) 2004 includes a $493,000 gain from the sale of the Company s former Newport, KY pipe coating machinery and equipment which had been classified as held for resale .

(6) The 2003 results from discontinued operations include the release of a $1,594,000 valuation allowance against foreign net operating losses that was utilized as a result of the dissolution of the Foster Technologies subsidiary.

Balance Sheet Data	December 31, 2007	2006	2005	2004	2003
Total assets	$ 330,772	$ 235,833	$ 178,868	$ 134,095	$ 131,159
Working capital	200,645	90,844	57,009	46,831	46,844
Long-term debt	28,056	54,273	29,276	17,395	20,858
Stockholders equity	213,826	98,033	79,989	73,743	70,544

ITEM 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Overview

General

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

The Company makes certain filings with the Securities and Exchange Commission (SEC), including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments and exhibits to those reports, available free of charge through its website, *www.lbfoster.com*, as soon as reasonably practicable after they are filed with the SEC. These filings are also available through the SEC at the SEC s Public Reference Room at 100 F Street N.E. Washington, D.C. 20549 or by calling 1-800-SEC-0330. Also, these filings are available on the internet at *www.sec.gov*. The Company s press releases are also available on its website.

Rail Products

The Rail products segment is composed of several manufacturing and distribution businesses that provide a variety of products for railroads, transit authorities, industrial companies and mining applications throughout the Americas. Rail products has sales offices throughout the United States and frequently bids on rail projects where it can offer products manufactured by the Company as well as products sourced from numerous suppliers. These products may be provided as a package to rail lines, transit authorities and construction contractors which reduces the customers procurement efforts and provides value added, just in time delivery.

The Rail products segment designs and manufactures bonded insulated rail joints and a variety of specialty trackwork, cuts and drills rail, panelizes track for emergency and construction use, and manufactures concrete cross ties and turnout ties. The Company has concrete tie manufacturing facilities in Spokane, WA, Grand Island, NE, and Tucson, AZ. The Company also has two facilities that design, test and fabricate rail products in Atlanta, GA and Niles, OH.

The Rail distribution business provides our customers with access to a variety of products including stick rail, continuous welded rail, specialty trackwork, power rail and various rail accessories. This is a highly competitive business that, once specifications are met, depends heavily on pricing. The Company maintains relationships with several rail manufacturers but procures the majority of the rail it distributes from one supplier. Rail accessories are sourced from a wide variety of suppliers.

Construction Products

The Construction products segment is composed of the following business units: Piling, Fabricated Products, and Precast Concrete Buildings.

The Piling division, via a sales force deployed throughout the United States, markets and sells piling internationally. This division offers its customers various types and dimensions of structural beam piling, sheet piling, and pipe piling. These piling products are sourced from various suppliers. The Company is the primary distributor of domestic bearing pile and sheet piling for its primary supplier.

The Fabricated Products unit manufactures a number of fabricated steel and aluminum products primarily for the highway, bridge and transit industries including grid reinforced concrete deck and open steel grid flooring systems, guardrails, and expansion joints and heavy structural steel fabrications.

The Precast Concrete Buildings unit manufactures concrete buildings for national, state and municipal parks. This unit manufactures restrooms, concession stands and other protective storage buildings available in multiple designs, textures and colors. The Company believes it is the leading high-end supplier in terms of volume, product options and capabilities. The buildings are manufactured in Spokane, WA and Hillsboro, TX.

Tubular Products

The Tubular products segment has two discrete business units: Coated Pipe and Threaded Products.

The Coated Pipe unit, located in Birmingham, AL, coats the outer dimension and, to a lesser extent, the inner dimension of pipe primarily for the gas transmission, and to a much lesser extent oil transmission, industries. Coated Pipe partners with its primary customer, a pipe manufacturer, to market fusion bonded epoxy coatings, abrasion resistant coatings and internal linings for a wide variety of pipe dimensions for pipeline projects throughout North America.

The Threaded Products unit, located in Houston, TX, cuts, threads and paints pipe primarily for water well products for the agriculture industry and municipal water authorities. Threaded Products is also in the micro-pile business and threads pipe used in earth and other structural stabilization.

2007 Developments

In February 2007, the Company entered into a third amendment to the Amended and Restated Revolving Credit and Security Agreement. Under this amendment, borrowings placed in LIBOR contracts will be priced at prevailing LIBOR rates, plus 1.25%. Borrowings placed in other tranches will be priced at the prevailing prime rate minus 1.00%. The amendment permits the Company to use various additional debt instruments to finance capital expenditures, outside of borrowings under the agreement, limited to an additional $10.0 million. The amendment also increased the Company s permitted annual capital expenditures to $12.0 million.

In July 2007, the Company entered into a fourth amendment to the Amended and Restated Revolving Credit and Security Agreement. The amendment provides for an increase in the Company s maximum credit line to $90.0 million expiring in May 2011. Additionally, the amendment establishes a $20.0 million term loan that was immediately applied to pay down existing drawings on the revolving credit facility. The term loan is amortized based on a term of seven years with a balloon payment on the remaining outstanding principal due at the maturity of the Agreement, May 2011. If average availability should fall below $10.0 million over a 30-day period, the loans become immediately secured by a lien on the Company s equipment that is not encumbered by other liens. The Company is obligated to satisfy a fixed charge coverage ratio of 1.05 to 1.

In July 2007, Chaparral Steel Company, our primary supplier of sheet piling and bearing pile, announced that it had entered into an agreement to be acquired by Gerdau Ameristeel Corporation. This transaction closed in September 2007. If we are unable to continue to distribute the products of Gerdau Ameristeel Corporation, our results of operations and liquidity could be adversely affected.

In September 2007, the DM&E announced it had entered into an Agreement and Plan of Merger under which an indirect, wholly owned subsidiary of the Canadian Pacific Railway Limited (CP) would be merged into the DM&E, with the DM&E being the surviving corporation. In October 2007, the merger agreement between the DM&E and the CP was consummated. More information about the DM&E and the merger agreement with the CP can be found on page 25 of this Management s Discussion and Analysis of Financial Condition and Results of Operations.

In October 2007, the Company negotiated the renewal of the collective bargaining agreement with our Spokane, WA workforce represented by the United Steelworkers Local number 338.

Recent Developments

In December 2007, the Company entered into a preliminary agreement to sell approximately 63 acres of real estate located in Houston, TX used primarily by the Company s Tubular products segment and reclassified these assets as property held for resale under SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. The purchase price of the real estate was approximately $6.5 million.

This transaction closed on March 3, 2008. Pursuant to the agreement, the Company leased back from the purchaser approximately 20 acres of the real estate for a ten year term at a monthly rental rate of $1,000 per acre with annual 3% increases. The lease is a net lease with the Company being responsible for taxes, maintenance, insurance and utilities. The Company will use the leased property for its threaded product operations.

Our agreement with the UPRR includes their purchasing concrete ties from our Grand Island, NE facility through 2010 and our Tucson, AZ facility through 2012. While the UPRR will continue to purchase concrete ties under this agreement, total concrete ties purchased by the UPRR in 2008 will be reduced by approximately 40% from its 2007 purchase levels. While we believe that the UPRR purchasing level for concrete ties will improve beyond 2008, we have taken certain steps to mitigate the effects of this loss of business including reducing the workforce at both of our facilities as well as other efficiency efforts including extending the cure times of the concrete ties we are currently producing.

Critical Accounting Policies and Estimates

The Company s significant accounting policies are described in Note 1 to the consolidated financial statements. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or the method of its application, is generally accepted, management selects the principle or method that is appropriate in the Company s specific circumstance. Application of these accounting principles requires management to make estimates that affect the reported amount of assets, liabilities, revenues, and expenses, and the related disclosure of contingent assets and liabilities. The following critical accounting policies relate to the Company s more significant judgments and estimates used in the preparation of its consolidated financial statements. There can be no assurance that actual results will not differ from those estimates.

Asset impairment The Company is required to test for asset impairment whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable. The Company applies Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144) in order to determine whether or not an asset is impaired. This statement indicates that if the sum of the future expected cash flows associated with an asset, undiscounted and without interest charges, is less than the carrying value, an asset impairment must be recognized in the financial statements. The amount of the impairment is the difference between the fair value of the asset and the carrying value of the asset. The Company believes that the accounting estimate related to an asset impairment is a critical accounting estimate as it is highly susceptible to change from period to period and because it requires management to make assumptions about the existence of impairment indicators and cash flows over future years. These assumptions impact the amount of an impairment, which would have an impact on the income statement.

Allowance for Bad Debts The Company s operating segments encounter risks associated with the collection of accounts receivable. As such, the Company records a monthly provision for accounts receivable that are deemed uncollectible. In order to calculate the appropriate monthly provision, the Company reviews its accounts receivable aging and calculates an allowance through application of historic reserve factors to overdue receivables. This calculation is supplemented by specific account reviews performed by the Company s credit department. As necessary, the application of the Company s allowance rates to specific customers is reviewed and adjusted to more accurately reflect the credit risk inherent within that customer relationship. The reserve is reviewed on a monthly basis. An account receivable is written off against the allowance when management determines it is uncollectible.

The Company believes that the accounting estimate related to the allowance for bad debts is a critical accounting estimate because the underlying assumptions used for the allowance can change from period to period and the allowance could potentially cause a material impact to the income statement. Specific customer circumstances and general economic conditions may vary significantly from management s assumptions and may impact expected earnings. At December 31, 2007 and 2006, the Company maintained an allowance for bad debts of $1.5 million and $1.2 million, respectively.

Product Liability The Company maintains a current liability for the repair or replacement of defective products. For certain manufactured products, an accrual is made on a monthly basis as a percentage of cost of sales. For long-term construction projects, a liability is established when the claim is known and quantifiable. The product liability accrual is periodically adjusted based on the identification or resolution of known individual product liability claims. The Company believes that this is a critical accounting estimate because the underlying

assumptions used to calculate the liability can change from period to period. At December 31, 2007 and 2006, the product liability was $1.9 million and $1.6 million, respectively.

Slow-Moving Inventory The Company maintains reserves for slow-moving inventory. These reserves, which are reviewed and adjusted routinely, take into account numerous factors such as quantities-on-hand versus turnover, product knowledge, and physical inventory observations. The Company believes this is a critical accounting estimate because the underlying assumptions used in calculating the reserve can change from period to period and could have a material impact on the income statement. At December 31, 2007 and 2006, the reserve for slow-moving inventory was $3.8 million and $2.3 million, respectively.

Revenue Recognition on Long-Term Contracts Revenues from long-term contracts are recognized using the percentage of completion method based upon the proportion of actual costs incurred to estimated total costs. For certain products, the percentage of completion is based upon the ratio of actual direct labor costs to estimated total direct labor costs.

As certain contracts extend over one or more years, revisions to estimates of costs and profits are reflected in the accounting period in which the facts that require the revisions become known. Historically, the Company s estimates of total costs and costs to complete have reasonably approximated actual costs incurred to complete contracts. At the time a loss on a contract becomes known, the entire amount of the estimated loss is recognized in the financial statements. The Company estimates the extent of progress towards completion, contract revenues and contract costs on its long-term contracts. The Company believes these estimates are critical accounting estimates because they require the use of judgments due to uncertainties inherent in the estimation process. As a result, actual revenues and profits could differ materially from estimates.

Pension Plans The calculation of the Company s net periodic benefit cost (pension expense) and benefit obligation (pension liability) associated with its defined benefit pension plans (pension plans) requires the use of a number of assumptions that the Company deems to be critical accounting estimates . Changes in these assumptions can result in a different pension expense and liability amounts, and future actual experience can differ significantly from the assumptions. The Company believes that the two most critical assumptions are the expected long-term rate of return on plan assets and the assumed discount rate.

The expected long-term rate of return reflects the average rate of earnings expected on funds invested or to be invested in the pension plans to provide for the benefits included in the pension liability. The Company establishes the expected long-term rate of return at the beginning of each fiscal year based upon information available to the Company at that time, including the plan s investment mix and the forecasted rates of return on these types of securities. Any differences between actual experience and assumed experience are deferred as an unrecognized actuarial gain or loss. The unrecognized actuarial gains or losses are amortized in accordance with SFAS No. 87, Employers Accounting for Pensions (SFAS 87). The expected long-term rate of return determined by the Company for 2007 and 2006 was 7.75%. Pension expense increases as the expected long-term rate of return decreases.

The assumed discount rate reflects the current rate at which the pension benefits could effectively be settled. In estimating that rate, SFAS 87 requires that the Company looks to rates of return on high quality, fixed income investments. The Company s pension liability increases as the discount rate is reduced. Therefore, the decline in the assumed discount rate has the effect of increasing the Company s pension obligation and future pension expense. The assumed discount rate used by the Company was 6.25% and 5.75% for 2007 and 2006, respectively.

On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension Plans and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R), (SFAS 158). SFAS 158 required the Company to recognize the funded status of its

defined benefit plans in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income/(loss), net of tax. The adjustment to accumulated comprehensive income/(loss) at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition assets remaining from the initial adoption of SFAS 87.

Deferred Tax Assets The recognition of deferred tax assets requires management to make judgments regarding the future realization of these assets. As prescribed by SFAS No. 109, Accounting for Income Taxes

(SFAS 109), valuation allowances must be provided for those deferred tax assets for which it is more likely than not (a likelihood more than 50%) that some portion or all of the deferred tax assets will not be realized. SFAS 109 requires management to evaluate positive and negative evidence regarding the recoverability of deferred tax assets. Determination of whether the positive evidence outweighs the negative and quantification of the valuation allowance requires management to make estimates and judgments of future financial results. The Company believes that these estimates and judgments are critical accounting estimates .

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). This Interpretation applies to all open tax positions accounted for in accordance with SFAS 109. This Interpretation is intended to result in increased relevance and comparability in financial reporting of income taxes and to provide more information about the uncertainty in income tax assets and liabilities. We adopted this interpretation on January 1, 2007.

See Note 14, Income Taxes . The Company s ability to realize these tax benefits may affect the Company s reported income tax expense (benefit) and net income (loss).

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, rather it applies under existing accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The adoption of this standard is not expected to have a significant effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of SFAS No. 115, (SFAS 159). SFAS 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting principles generally accepted in the United States. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of this standard will not have a significant effect on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS 141R) which replaces SFAS No. 141. SFAS 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning after December 15, 2008. The Company will adopt the provisions of this standard beginning January 1, 2009.

Results of Operations

	Three Months Ended December 31,		Twelve Months Ended December 31,		
	2007	2006	2007	2006	2005
	Dollars in thousands				
Net Sales:					
Rail Products	$ 56,802	$ 49,499	$ 260,634	$ 189,236	$ 157,765
Construction Products	49,286	56,749	211,867	180,797	147,401
Tubular Products	7,927	4,204	36,480	19,755	20,824
Total Net Sales	$ 114,015	$ 110,452	$ 508,981	$ 389,788	$ 325,990
Gross Profit:					
Rail Products	$ 8,714	$ 4,399	$ 32,675	$ 20,953	$ 17,504
Construction Products	9,255	9,659	36,501	28,925	17,384
Tubular Products	2,112	835	10,092	3,920	4,264
Other	(120)	(441)	(2,885)	(2,207)	(2,363)
Total Gross Profit	19,961	14,452	76,383	51,591	36,789
Expenses:					
Selling and Administrative Expenses	9,322	8,996	37,403	33,657	28,579
Interest Expense	700	975	4,031	3,390	2,472
Dividend Income		(247)	(9,214)	(990)	(990)
Gain on Sale of DM&E Investment	(122,885)		(122,885)		
Interest Income	(1,175)	(3)	(1,196)	(4)	(1)
Other (Income) Expense	(226)	191	(267)	(251)	(295)
Total (Income) Expenses	(114,264)	9,912	(92,128)	35,802	29,765
Income from Continuing Operations, Before Income Taxes	134,225	4,540	168,511	15,789	7,024
Income Tax Expense	47,991	1,550	57,787	5,074	2,176
Income From Continuing Operations	86,234	2,990	110,724	10,715	4,848
Discontinued Operations:					
(Loss) Income From Discontinued Operations	(2)	(43)	(47)	3,153	714
Income Tax (Benefit) Expense		(19)	(16)	338	128
(Loss) Income From Discontinued Operations	(2)	(24)	(31)	2,815	586
Net Income	$ 86,232	$ 2,966	$ 110,693	$ 13,530	$ 5,434
Gross Profit%:					
Rail Products	15.3%	8.9%	12.5%	11.1%	11.1%

Construction Products	18.8%	17.0%	17.2%	16.0%	11.8%
Tubular Products	26.6%	19.9%	27.7%	19.8%	20.5%
Total Gross Profit%	17.5%	13.1%	15.0%	13.2%	11.3%

Fourth Quarter of 2007 vs. Fourth Quarter of 2006

Income from continuing operations and net income for the fourth quarter of 2007 was $86.2 million ($7.79 per diluted share) on net sales of $114.0 million. Income from continuing operations and net income for the fourth quarter of 2007 includes a pre-tax gain of $122.9 million from the sale of our investment in the DM&E railroad. This compares favorably to income from continuing operations for the fourth quarter of 2006 which was $3.0 million ($0.27 per diluted share) on net sales of $110.5 million.

Net sales increased $3.6 million, or 3.2%, compared to the prior-year quarter. Rail segment sales increased 14.8% due to our concrete railroad tie sales which increased compared to the same prior year quarter primarily due to our Tucson, AZ facility which started producing and selling concrete railroad ties in the first quarter of 2007. Last year represented a start-up year for this facility and it produced only minimal concrete railroad ties late in the fourth quarter of 2006. Our Allegheny Rail Products division also contributed to the growth with increased sales volumes and production at the Pueblo, CO and Niles, OH facilities. During the prior year quarter, our Pueblo, CO facility, where we manufacture insulated rail joints, experienced production start-up inefficiencies which were largely corrected during 2007. Lastly, our rail distribution sales increase was associated with higher volumes of scrap and reroll products sales. This increase was partially offset by a decrease in sales volumes from rail project work. Construction products sales decreased 13.2% due mainly to reduced piling sales. In the prior year period, delivery of two large orders of flat sheet piling sales were deferred from the third quarter into the fourth quarter due to customer delays. This resulted in a large spike in piling sales during the fourth quarter of 2006. Tubular products sales increased 88.6% compared to the fourth quarter of 2006 due to growth in both our Coated Pipe and Threaded Products divisions. The Coated Pipe division s sales growth came from continued demand from a strong energy market.

Gross profit margin increased 4.4 percentage points to 17.5% compared to last year s fourth quarter. Rail products profit margin increased 6.4 percentage points to 15.3%. This increase was primarily attributable to increased billing margins, decreased unfavorable plant variances and decreased warranty expense at our Spokane, WA concrete tie facility. Additionally, our Transit Products division s gross profit margin increased due to product mix. Construction products gross profit margin increased 1.8 percentage points to 18.8%. Product mix with our piling sales contributed to the increased gross profit. Tubular products gross profit margin increased by 6.7 percentage points to 26.6% due primarily to improved volume-related efficiencies within the Coated Pipe division.

Selling and administrative expenses increased 3.6% from the same prior year period due to increases in employee related costs including benefit expenses. Interest expense decreased 28.2% due to reduced average borrowings. In connection with the sale of the DM&E Railroad, we stopped accruing dividend income and recorded a pre-tax gain of $122.9 million during the fourth quarter of 2007. The proceeds received from this sale were invested in a series of short term, tax-free mutual funds resulting in the receipt of $1.1 million of interest income during the fourth quarter of 2007. More information about the DM&E and its merger agreement with the CP can be found on page 25 of this Management s Discussion and Analysis of Financial Condition and Results of Operations. Income taxes from continuing operations in the fourth quarter were recorded at approximately 35.8% compared to 34.1% in the prior year period.

The Year 2007 Compared to the Year 2006

For the year ended December 31, 2007, income from continuing operations was $110.7 million ($10.09 per diluted share) on net sales of $509.0 million. Income from continuing operations includes the aforementioned $122.9 million pre-tax gain from the sale of our investment in the DM&E Railroad. Additionally, income from continuing operations includes $8.5 million of incremental dividend income recognized in the third quarter of 2007 when the sale of the DM&E Railroad was announced. This compares favorably to income from continuing operations of $10.7 million ($0.99 per diluted share) for 2006 on net sales of $389.8 million.

Including the pre-tax gain and dividend income related to the DM&E sale, net income for 2007 was $110.7 million ($10.09 per diluted share). Including income from discontinued operations of $2.8 million ($0.26 per diluted share), which includes a gain on the sale of the Company s former Geotechnical division of approximately $3.0 million; net income for 2006 was $13.5 million ($1.25 per diluted share).

Net sales for the year ended December 31, 2007 increased $119.2 million, or 30.6%, from the prior year. Rail segment sales increased 37.7%, or $71.4 million from the prior year, primarily as a result of increased revenues from rail

distribution, which were driven mainly by new rail project work. Secondly, we produced and sold more concrete ties during 2007 than in the previous year due principally to production at our Tucson, AZ facility. Last year represented a start-up year for this facility and it produced and sold only minimal ties late in the fourth quarter of 2006. Our Grand Island, NE facility was also able to increase tie production in 2007 due to the installation of a fifth

production line at the facility. Our agreement with the UPRR includes their purchasing concrete ties from our Grand Island, NE facility through 2010 and our Tucson, AZ facility through 2012. While the UPRR will continue to purchase concrete ties under this agreement, total concrete ties purchased by the UPRR in 2008 will be reduced by approximately 40% from its 2007 purchase levels. Thirdly, our Transit Products division had improved sales from a strong backlog entering 2007. SAFETEA-LU, 2005 legislation that authorized funding for transit products, led to increased transit agency spending. Finally, our ARP division benefited from increased sales at both our Pueblo, CO and Niles, OH facilities. Construction segment sales increased 17.2%, or $31.1 million from the prior year due primarily to increased piling sales as well as increased sales from concrete buildings. Our H-beam and pipe piling products drove the overall increase in piling sales, benefiting from a combination of both price increases and strong customer demand throughout 2007. These increases were partially offset by a decrease in bridge products revenues. Three large bridge jobs were completed during 2006 which had a positive impact on that period s sales. Tubular segment sales increased 84.7%, or $16.7 million, over the prior year due to increased sales volumes in both our Coated Pipe and Threaded Products divisions. The Coated Pipe division s sales increased due to a strong energy market leading to the addition of a second shift during a portion of the second quarter and all of the third quarter of 2007 at our Birmingham, AL facility. Our Threaded Products division has benefited from its entrance into the micropile market and providing limited service to the oil country tubular goods market, both of which have added volume to our Langfield, TX facility. We anticipate strength in all three of our business segments; we do not, however, provide assurances that the rate of growth or sales levels will remain at these levels during 2008.

Our 2007 gross margin percentage increased 1.8 percentage points to 15.0% compared to 13.2% in 2006. Rail products gross margin percentage increased to 12.5%, an increase of 1.4 percentage points over the prior year period. Increased plant efficiencies at our Spokane, WA facility and a full year of production at our Tucson, AZ tie facility contributed to the margin expansion. Construction products gross margin percentage increased 1.2 percentage points to 17.2% from the year earlier period as a result of improved performance across all product lines except concrete buildings. Our Spokane, WA facility experienced high employee turnover leading to an inexperienced workforce that contributed to higher unfavorable plant variances at this facility. Tubular products gross margin percentage increased to 27.7% from 19.8% in 2006, an increase of 7.9 percentage points, due to improved billing margins within both divisions and improved volume-related efficiencies within our Coated Pipe division.

Selling and administrative expenses increased $3.7 million or 11.1% over the prior year comparable period due to increases in employee related costs and benefit expenses including incentive compensation. Interest expense increased $0.6 million, or 18.9%, due to increased average borrowings during the first half of the year. We were able to reduce outstanding borrowings during the second half of 2007 as a result of generating strong positive cash flows from operations. At the announcement of the sale of the DM&E railroad, we recognized $8.5 million of previously unrecognized dividend income due from the DM&E. This increase was offset by the loss of $0.2 million in dividend income which would have been recognized during the fourth quarter of 2007. In connection with the sale of the DM&E Railroad, we recorded a pre-tax gain of $122.9 million. We invested the proceeds received from this sale in a series of short term, tax-free mutual funds resulting in the receipt of $1.1 million of interest income during the fourth quarter. More information about the DM&E and its merger agreement with the CP can be found on page 25 of this Management s Discussion and Analysis of Financial Condition and Results of Operations. The 2007 income tax provision from continuing operations was 34.3% compared to 32.1% for 2006. The lower rate in the prior year resulted from a release of valuation allowances. See Note 14, Income Taxes .

<u>The Year 2006 Compared to the Year 2005</u>

For the year ended December 31, 2006, income from continuing operations was $10.7 million ($0.99 per diluted share) on net sales of $389.8 million. This compares favorably to income from continuing operations of $4.8 million ($0.46 per diluted share) for 2005 on net sales of $326.0 million.

Including income from discontinued operations of $2.8 million ($0.26 per diluted share), which includes a gain on the sale of the Company s former Geotechnical division of approximately $3.0 million, net income for the year ended December 31, 2006 was $13.5 million ($1.25 per diluted share). During the same period in 2005, the Company had net income of $5.4 million ($0.52 per diluted share) which included income from discontinued operations of $0.6 million ($0.06 per diluted share).

Net sales for the year ended December 31, 2006 increased $63.8 million, or 19.6%, from the prior year. Rail segment sales increased 19.9%, or $31.5 million from the prior year, primarily as a result of increased revenues from concrete railroad ties, rail distribution and transit products. Construction segment sales increased 22.7%, or $33.4 million from the prior year due primarily to the previously mentioned steel sheet piling sales increase as well as increased sales from concrete buildings and fabricated products. The increase in steel sheet piling sales in 2006 is due to improved availability as well as increased sales and marketing efforts. Tubular segment sales decreased 5.1%, or $1.1 million, over the prior year due to lower coated pipe volumes.

The Company s 2006 gross margin percentage increased 1.9 percentage points to 13.2% compared to 11.3% in 2005. This improvement was due primarily to increased billing margins and to a lesser extent a $0.6 million reduction in LIFO expense. Rail products gross margin percentage remained consistent at 11.1% with the prior year period. Construction products gross margin percentage increased to 16.0%, an increase of 4.2 percentage points from the year earlier period as a result of improved performance across all product lines. Tubular products gross margin percentage decreased 0.7 percentage points to 19.8% from 20.5% due to lower coated pipe margins.

Selling and administrative expenses increased $5.1 million, or 17.8%, compared to the prior year due primarily to employee related costs including incentive compensation. Interest expense rose $0.9 million, or 37.1% in 2006 due to increased borrowings and increased interest rates. The 2006 income tax provision from continuing operations for the Company was 32.1% compared to 31.0% for 2005. See Note 14, Income Taxes .

Liquidity and Capital Resources

The following table sets forth L.B. Foster s capitalization:

	December 31, 2007	December 31, 2006
	In millions	
Debt:		
Revolving Credit Facility	$	$ 39.2
Term Loan, due May 2011	19.0	
Capital Leases and Interim Lease Financing	12.1	15.7
Other (primarily revenue bonds)	3.1	3.2
Total Debt	34.2	58.1
Equity	213.8	98.0
Total Capitalization	$ 248.0	$ 156.1

Working capital increased $109.8 million to $200.6 million at December 31, 2007 compared to $90.8 million at December 31, 2006. Cash and cash equivalents increased $119.8 million due to the $148.8 million we received in connection with the sale of our investment in the DM&E consummated in October 2007. We made estimated tax payments of approximately $44.0 million in the fourth quarter of 2007.

The Company s liquidity needs arise from seasonal working capital requirements, capital expenditures, acquisitions and debt service obligations.

22

The following table summarizes the impact of these items during the past three years:

	December 31,		
	2007	2006	2005
		In millions	
Liquidity needs:			
Working capital and other assets and liabilities	$ 2.6	$ (27.7)	$ (17.5)
Capital expenditures, net of asset sales	(5.2)	(16.9)	(10.5)
Scheduled repayments of long-term debt	(1.0)		
Scheduled repayments of other long-term debt	(3.1)	(2.1)	(0.7)
Cash interest paid	(4.0)	(3.4)	(2.2)
Net liquidity requirements	(10.7)	(50.1)	(30.9)
Liquidity sources:			
Internally generated cash flows before interest paid	40.3	16.1	12.3
Proceeds from the sale of DM&E investment	148.8		
Income taxes paid on DM&E gains	(44.0)		
Credit facility activity	(39.2)	18.3	6.7
Term loan, due May 2011	20.0		
Equity transactions	5.3	4.0	1.0
Discontinued operations		6.7	3.2
Other	(0.7)	4.7	9.0
Net liquidity sources	130.5	49.8	32.2
Net Change in Cash	$ 119.8	$ (0.3)	$ 1.3

Capital expenditures, net of asset sales in 2007 were $5.2 million compared to $16.9 million and $10.5 million in 2006 and 2005, respectively. Spending in 2007 was for the installation of a fifth line at our Grand Island, NE facility, maintenance capital and additional small amounts of other facilities improvement spending. Spending in 2006 was primarily for ongoing construction of new facilities in Tucson, AZ and Pueblo, CO. Spending in 2005 represents the beginning of the construction for the new concrete tie facility in Tucson, AZ, and the upgrade of another facility in Grand Island, NE. The amount of capital spending in 2008 is expected to be approximately $8.0 million and funded by cash flow from operations.

We routinely review our portfolio of businesses and contemplate potential acquisitions and dispositions from time to time. In connection with the merger agreement announced by the DM&E in September 2007, we received $148.8 million in October 2007. Of this amount, approximately $9.0 million represented a return of principal, approximately $16.9 million represented dividends and we recorded a pre-tax gain of approximately $122.9 million, net of the fully reserved $2.1 million being held in escrow, during the fourth quarter of 2007. We accrued approximately $45.6 million of income taxes related to the proceeds from the sale of our investment in the DM&E. We are currently assessing a number of options for the use of these funds, including, but not limited to, debt reduction, strategic acquisitions, organic reinvestment in the existing business, share repurchases and other general corporate purchases. We currently have these funds invested in short-term, tax free mutual funds.

We have a revolving credit agreement which expires in May 2011 and provides for up to $90.0 million in borrowings to support our working capital and other liquidity requirements. Borrowings under this agreement are secured by substantially all the trade receivables and inventory owned by us, and are limited to 85% of eligible receivables and 60% of eligible inventory. Additionally, the revolving credit agreement provided for a $20.0 million term loan that was immediately applied to pay down existing drawings on the revolving credit facility. If average availability should fall below $10.0 million over a 30-day period, the loans become immediately secured by a lien on the Company s equipment that is not encumbered by other liens.

Borrowings under the credit facility bear interest at interest rates based upon either the base rate or LIBOR plus or minus applicable margins. Prior to February 2007, the base rate was equal to the higher of (a) PNC Bank s base

commercial lending rate or (b) the Federal Funds Rate plus .50%. The base rate spread ranged from a minus 1.00% to a plus 0.50%, and the LIBOR spread ranged from 1.50% to 2.50%. Effective in February 2007, under the third amendment to the credit facility, for borrowings under the revolving credit facility the base rate spread is fixed at minus 1.00% and the LIBOR spread is fixed at plus 1.25%. The term loan base rate spread is fixed at minus 0.75% and the LIBOR spread is fixed at plus 1.50%. Under the credit agreement, we maintain dominion over our cash at all times, as long as excess availability stays over $5.0 million and there is no uncured event of default.

There were no revolving credit facility borrowings at December 31, 2007, a decrease of $39.2 million from December 31, 2006. At December 31, 2007, remaining available borrowings under this facility were approximately $74.8 million. The outstanding amount of the term loan at December 31, 2007 was approximately $19.0 million of which approximately $16.2 million was classified as noncurrent. Outstanding letters of credit at December 31, 2007 were approximately $3.3 million. The letters of credit have expiration dates ranging from March 2008 to May 2010. Management believes its internal and external sources of funds are adequate to meet anticipated needs for the foreseeable future.

The credit agreement includes financial covenants requiring a minimum level for the fixed charge coverage ratio and a maximum level for consolidated capital expenditures; however, expenditures up to $20.0 million for plant construction and refurbishment related to our concrete tie supply agreement were excluded from these covenants. The credit agreement also includes a minimum net worth covenant and restricts certain investments, indebtedness, and the sale of certain assets. As of December 31, 2007 we were in compliance with all the credit agreement s covenants.

Tabular Disclosure of Contractual Obligations

A summary of the Company s required payments under financial instruments and other commitments are presented in the following table:

	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
			(In thousands)		
Contractual Cash Obligations					
Long-term borrowings(1)	$ 22,137	$ 3,058	$ 6,029	$ 10,799	$ 2,251
Interest on long-term borrowings(1)	2,318	179	712	1,278	149
Capital leases(2)	12,110	3,133	6,189	2,788	
Interest on capital leases(2)	1,830	756	865	209	
Operating leases	10,862	1,953	3,357	2,634	2,918
Purchase obligations not reflected in the financial statements	17,341	17,341			
Total contractual cash obligations	$ 66,598	$ 26,420	$ 17,152	$ 17,708	$ 5,318
Other Financial Commitments					
Standby letters of credit	$ 3,267	$ 2,662	$ 605	$	$

(1)

Borrowings of $19.0 million under the amended credit agreement are payable in installments from 2007 through 2011, with a balloon payment due in 2011. Interest on these borrowings is LIBOR plus 1.50%, currently 5.90%, and is payable monthly. The $2.0 million Massachusetts Industrial Revenue Bond matures in March 2013. Interest on this bond is payable monthly and was calculated using the interest rate at December 31, 2007 of 3.84%. The Citizens Asset Finance Mortgage of $0.6 million is payable in installments from 2007 through 2011, with a balloon payment due in 2011. Interest on this mortgage is fixed at 7.01% and is payable monthly. The Pennsylvania Economic Development Financing Authority Tax Exempt Pooled Bond of $0.3 million is payable in installments from 2007 through 2021. Interest was calculated using the interest rate of 3.78% at December 31, 2007 and is payable monthly. The $0.1 million Pennsylvania Department of Community and Economic Development Machinery and Equipment Loan is payable in installments through 2009. Interest on this loan is fixed at 3.75% and is payable monthly.

(2) Capital lease obligations are payable in installments through 2012 and have interest rates, payable monthly, ranging from 5.58% to 13.62%.

Other long-term liabilities include items such as income taxes which are not contractual obligations by nature. The Company can not estimate the settlement years for these items and has excluded them from the above table.

Off Balance Sheet Arrangements

The Company s off-balance sheet arrangements include the operating leases, purchase obligations and standby letters of credit disclosed in the Liquidity and Capital Resources section in the contractual obligations table. These arrangements provide the Company with increased flexibility relative to the utilization and investment of cash resources.

Dakota, Minnesota & Eastern Railroad

Overview

The Company maintained a significant investment in the Dakota, Minnesota & Eastern Railroad Corporation (DM&E), a privately held, regional railroad, which controlled over 2,500 miles of track in eight states. In September 2007, the DM&E announced it had entered into an Agreement and Plan of Merger under which an indirect, wholly owned subsidiary of the Canadian Pacific Railway Limited (CP) would be merged in the DM&E, with the DM&E being the surviving corporation. In October 2007, this merger was consummated.

Summary of Historical Ownership

At December 31, 2006, the Company s investment was comprised of $0.2 million of DM&E common stock, $1.5 million of Series B Preferred Stock and warrants, $6.0 million of Series C Preferred Stock and warrants, $0.8 million of Preferred Series C-1 Stock and warrants, and $0.5 million of Series D Preferred Stock and warrants. In addition, the Company had a receivable, recorded within Investments on the Company s consolidated balance sheet, for accrued dividend income on Preferred Stock of approximately $7.7 million. The Company owned, including the Company s warrants, approximately 12.3% of the DM&E s common stock, on a diluted basis. Dividend income was approximately $1.0 million for each year ended December 31, 2006 and 2005.

In December 1998, in conjunction with the issuance of Series C Preferred Stock and warrants, the DM&E ceased paying dividends on the Series B shares. The terms of the Series B Preferred Stock state in the event that regular dividends were not paid timely, dividends accrued at an accelerated rate until those dividends were paid. In addition, penalty interest accrued and compounded annually until such dividends were paid. Subsequent issuances of Series C, C-1, and D Preferred Stock had all assumed distribution priority over the previous series, with series D not redeemable until 2008. As subsequent preferred series were issued and prior to the announcement of the merger between the DM&E and the CP, the Company, based on its own estimate of future cash flows and other factor s impacting the DM&E s ability to pay dividends and the estimated timing of those payments, recorded only a portion of the full amount due on all preferred series given the delay in anticipated realization of the asset and the priority of redemption of the various issuances. The amount of dividend income not recorded was approximately $7.0 million at December 31, 2006.

Summary of DM&E Project Milestones

In June 1997, the DM&E announced its plan to build an extension from the DM&E s existing line into the low sulfur coal market of the Powder River Basin in Wyoming and to rebuild approximately 600 miles of its existing track (Project). The estimated cost of this project was expected to be in excess of $2.0 billion. The Surface Transportation Board (STB) approved the Project in January 2002. In October 2003, however, the 8th U.S. Circuit Court of Appeals remanded the matter to the STB and instructed the STB to address, in its environmental impact statement, the Project s effects on air quality, noise and vibration, and preservation of historic sites. On January 30, 2004, the 8th U.S. Circuit Court of Appeals denied petitions seeking a rehearing of the case. On April 15, 2005, the STB issued a draft Supplemental Environmental Impact Statement (SEIS) on the Project. On February 13, 2006, after reviewing public comments on the SEIS, the STB made its final decision, approving the Project. In April 2006,

several opponents to the Project appealed the STB s final decision to the 8th U.S. Circuit Court of Appeals. On December 29, 2006, the 8th U.S. Circuit Court of Appeals upheld the STB s decision to grant final approval for the Project.

In December 2003, the DM&E received a Railroad Rehabilitation and Improvement Financing (RRIF) Loan in the amount of $233.0 million from the Federal Railroad Administration (FRA). Funding provided by the 25-year loan was used to refinance debt and upgrade infrastructure along parts of its existing route.

In November, 2005, the DM&E announced that it has applied to the FRA for a RRIF loan totaling approximately $2.5 billion to build and/or rehabilitate approximately 1,300 miles of railroad in four states. The loan package was intended to fund four separate projects, including a 900-mile project which encompasses the Project. Various groups had indicated their opposition to the DM&E s application for this FRA loan.

On January 31, 2007, the FRA announced that it had determined that the Project had met the requirements of the federal environmental review process. The release of the FRA s final environmental review, known as a Record of Decision, marked the start of a 90-day clock within which the agency had to approve or disapprove the DM&E loan application.

On February 26, 2007, the FRA announced that it had denied the DM&E s loan application for the Project due to the FRA s opinion that there was an unacceptable degree of risk concerning the DM&E s ability to repay the loan.

Summary of Merger Agreement

Under the terms of the merger agreement announced in September 2007 between the DM&E and the CP and finalized in October 2007, the DM&E s current preferred stock, common stock and warrants to purchase common stock were redeemed or cancelled in exchange for: (a) cash on the closing date; and (b) with respect to the common stock and warrants, future contingent payments based on (i) construction commencing on the Powder River Basin Expansion Project (PRB); and (ii) certain PRB tonnage thresholds being surpassed.

As a result of the merger agreement, the Company recognized previously unrecorded incremental dividend income of approximately $8.5 million in September 2007. Dividend income for the year ended December 31, 2007 was approximately $9.2 million.

In October 2007, this merger was consummated. In exchange for our DM&E preferred stock, warrants, common stock and accrued dividend income receivable, we received approximately $148.8 million. Of this amount, approximately $9.0 million represented a return of principal, approximately $16.9 million represented dividends and approximately $122.9 million represented the gain on investment which was recorded at closing. The pre-tax gain is net of the fully reserved approximately $2.1 million being held in escrow, until completion of all post-closing transactions, to secure certain of the DM&E s obligations.

CP also is obligated to pay the DM&E s former equity holders an aggregate of $350.0 million, plus interest at 5% per annum, if the CP commences construction of the PRB expansion prior to December 31, 2025. We should receive, prior to expenses and any offsets, approximately 121/4% of this construction milestone payment, if any such payment is made.

Additionally, CP shall cause the equity holders to receive certain payments not to exceed $707.0 million if CP attains milestones, as set forth in the table below, related to PRB coal tonnage thresholds prior to December 31, 2025. Our share of any of these individual future coal milestone payments, if any such payments are made, prior to expenses and any offsets, is approximately 121/4%.

Tonnage Condition	Coal Milestone Payment
At least 40 million tons in any calendar year	$58,000,000 plus an inflation adjustment from the Closing Date at a rate of 2%, compounded annually (the First Milestone Payment)
At least 50 million tons in any calendar year	$60,000,000 plus an inflation adjustment from the Closing Date at a rate of 2%, compounded annually (the Second Milestone Payment)
At least 60 million tons in any calendar year	$100,000,000 plus an inflation adjustment from the Closing Date at a rate of 2%, compounded annually (the Third Milestone Payment)
At least 75 million tons in any calendar year	$164,000,000 plus an inflation adjustment from the Closing Date at a rate of 2%, compounded annually (the Fourth Milestone Payment)
At least 100 million tons in any calendar year	$175,000,000 plus an inflation adjustment from the Closing Date at a rate of 2%, compounded annually (the Fifth Milestone Payment)
At least 125 million tons in any calendar year	$150,000,000 plus an inflation adjustment from the Closing Date at a rate of 2%, compounded annually (the Sixth Milestone Payment)

CP has stated that it may take several years for it to determine whether to construct the PRB expansion.

Outlook

Our CXT Rail and ARP divisions are dependent on the Union Pacific Railroad (UPRR) for a significant portion of their business. Subsequent to the January 2005 execution of a concrete tie supply agreement with UPRR, we installed new tie-manufacturing equipment at our Grand Island, NE facility and commenced production of concrete ties in September 2005. During the fourth quarter of 2007, the refurbished Grand Island, NE facility has been producing concrete ties at a rate 50% above the maximum capacity of the old facility. In addition to upgrading the Grand Island facility, we have completed a new concrete railroad tie manufacturing facility in Tucson, AZ. Despite construction delays attributable to permitting and other operational issues, the facility started tie production in the fourth quarter of 2006, with meaningful production beginning in the first quarter of 2007. During the second quarter of 2007, production at the facility had been hampered by employee turnover caused by the emergence of higher paying new businesses in the Tucson, AZ area. Including the Tucson, AZ facility, the Company produced 45% more concrete railroad ties over the prior year fourth quarter. Excluding the Tucson, AZ operations, concrete tie production has increased approximately 18% in the fourth quarter of 2007 compared to the prior year period.

Our agreement with the UPRR includes their purchasing concrete ties from our Grand Island, NE facility through 2010 and our Tucson, AZ facility through 2012. While the UPRR will continue to purchase concrete ties under this agreement, total concrete ties purchased by the UPRR in 2008 will be reduced by approximately 40% from its 2007 purchase levels. While we believe that the UPRR purchasing level for concrete ties will improve beyond 2008, we have taken certain steps to mitigate this loss of business including reducing the workforce at both of our facilities as well as other efficiency efforts including extending the cure times of the concrete ties we are currently producing.

Certain of our operating groups sold, from time to time, to the DM&E railroad and construction related materials. As a result of the merger agreement, certain of this business may be provided to the DM&E directly from other suppliers through existing CP relationships. The total amount of revenues associated for the years ended December 31, 2007,

2006 and 2005 was approximately $18.7 million, $17.2 million, and $9.5 million, respectively. While these revenues generated lower than typical gross profit margins, the Company may not be able to successfully mitigate the impact of this potential loss of business.

Our primary customer for track panels produced at our Pueblo, CO facility is not renewing its contract. The total amount of revenues associated with this customer for the years ended December 31, 2007, 2006 and 2005 was approximately $12.0 million, $10.5 million, and $13.3 million, respectively. We do not believe that the loss of this

customer will have a material, adverse impact on our results of operations or our liquidity. We expect that substantially all remaining inventory and plant equipment at this location will be utilized by other operating groups within the Company.

In connection with the ratification of the new collective bargaining agreement with our Spokane, WA workforce, the Company should be able to hire and retain better qualified employees and be more competitive in the marketplace. A more qualified and experienced workforce should, over time, reduce the prolonged production times which have had a negative impact on the financial results of this operation.

Although backlog is not necessarily indicative of future operating results, total Company backlog at December 31, 2007 was approximately $138.3 million. The following table provides the backlog by business segment:

	December 31,		
	2007	2006	2005
	In thousands		
Backlog:			
Rail Products	$ 61,597	$ 64,113	$ 56,567
Construction Products	70,342	66,145	42,156
Tubular Products	6,375	11,092	1,514
Total Backlog	$ 138,314	$ 141,350	$ 100,237

Construction segment backlog presented in the above table excludes backlog related to the Company s former Geotechnical division, which was classified as a discontinued operation in 2006. There was no backlog related to this division at December 31, 2007 or 2006. Backlog related to this division in 2005 was $29.2 million.

We continue to evaluate the performance of our various operations. A decision to sell, down-size or terminate an existing operation could have a material adverse effect on near-term earnings but would not be expected to have a material adverse effect on the financial condition of the Company.

Forward-Looking Statements

Statements relating to the value of the Company s share of potential future contingent payments related to the DM&E merger agreement with CP are forward-looking statements and are subject to numerous contingencies and risk factors. The CP has stated that it may take several years for it to determine whether to construct the PRB expansion.

Failure to successfully implement an efficient manufacturing operation at either of our new facilities in Tucson, AZ or Pueblo, CO in a cost effective manner would make it difficult for us to earn an appropriate return on our investments. Our businesses could be affected adversely by significant increases in the price of steel, concrete, and other raw materials or the availability of existing and new piling and rail products. Our operating results may also be affected negatively by adverse weather conditions.

A substantial portion of our operations are heavily dependent on governmental funding of infrastructure projects. Many of these projects have Buy America or Buy American provisions. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on our operating results. Additionally, government actions concerning Buy America provisions, taxation, tariffs, the environment, or other

matters could impact our operating results.

A significant portion of our Construction segment net sales and profits were related to the purchase and resale of products procured from Chaparral Steel Company, previously our primary supplier of steel sheet piling and bearing pile. In September 2007, Chaparral finalized its agreement to be acquired by Gerdau Ameristeel Corporation. If we are unable to continue to distribute the products of Gerdau Ameristeel Corporation, our results of operations and liquidity could be adversely affected. The Company does not believe there will be an effect on our existing relationship.

We caution readers that various factors could cause our actual results to differ materially from those indicated by forward-looking statements made from time to time in news releases, reports, proxy statements, registration statements and other written communications (including the preceding sections of this Management s Discussion and Analysis), as well as oral statements, such as references made to our future profitability, made from time to time by our representatives. For a discussion of some of the specific risk factors that may cause such differences, see Note 1 to the Consolidated Financial Statements, and the disclosures under Market Risks, and Form 10-K, Part I, Item 1A.

Except for historical information, matters discussed in such oral and written communications are forward-looking statements that involve risks and uncertainties, including but not limited to general business conditions, the availability of material from major suppliers, labor disputes, the impact of competition, the seasonality of our business, the adequacy of internal and external sources of funds to meet financing needs, our ability to curb our working capital requirements, taxes, inflation and governmental regulations. Sentences containing words such as believes, intends, anticipates, expects, or will generally should be considered forward-looking statements.

/s/ David J. Russo
David J. Russo
Senior Vice President,
Chief Financial Officer,
and Treasurer

/s/ Linda K. Patterson
Linda K. Patterson
Controller

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

The Company does not purchase or hold any derivative financial instruments for trading purposes. The Company uses derivative financial instruments to manage interest rate exposure on variable-rate debt, primarily by using interest rate collars and variable interest rate swaps. The Company s primary source of variable-rate debt comes from its revolving credit agreement. In conjunction with the Company s debt refinancing in 2002, the Company discontinued cash flow hedge accounting treatment for its interest rate collars and has applied mark-to-market accounting prospectively.

During 2005, the Company had one LIBOR-based interest rate collar agreement remaining. This agreement, which became effective in March 2001 and expired in March 2006, had a notional value of $15.0 million, a maximum annual interest rate of 5.60% and a minimum annual interest rate of 5.00%. On March 6, 2005, the counterparty to the agreement exercised its option to convert the collar to a one-year, fixed-rate instrument with interest payable at an annual rate of 5.49%.

With the debt refinancing in 2002, the collar agreements were not deemed to be an effective hedge of the new credit facility in accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). However, the Company retained these instruments as protection against interest rate risk associated with the new credit agreement and the Company recorded the mark-to-market adjustments on these instruments in its consolidated statements of operations. The remaining interest rate collar expired in March 2006. For the year ended December 31, 2006 and 2005, the Company recognized income of $29,000 and $0.4 million, respectively, to adjust these instruments to fair value.

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 as the underlying hedged items affect earnings. To the extent that a change in interest rate derivative does

not perfectly offset the change in value of the interest rate being hedged, the ineffective portion is recognized in earnings immediately.

The Company is not subject to significant exposures to changes in foreign currency exchange rates. The Company will, however, 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.

During 2004, the Company entered into commitments to sell Canadian funds based on the anticipated receipt of Canadian funds from the sale of certain rail through March 2006. During the fourth quarter of 2004, the Company determined that the receipt of Canadian funds would not coincide with the sale commitments and the Company recorded a $0.2 million loss to record these commitments at market. The remaining Canadian sell commitment was executed on September 30, 2005 at a loss of $0.1 million. During 2005, the Company recognized income of $0.1 million to adjust these commitments to fair value.

During 2006, the Company entered into commitments to sell Canadian funds based on the anticipated receipt of Canadian funds from the sale of certain rail commencing in the second quarter of 2007 through the third quarter of 2008. The fair value of these instruments was a liability of $0.2 million and an asset of $0.1 million as of December 31, 2007 and 2006, respectively. The liability is recorded in Other Accrued Liabilities. The current portion of the asset is recorded in Other Current Assets and the noncurrent portion is recorded in Other Assets. During 2007, three of these Canadian sell commitments were executed at a loss of $34,000.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
L. B. Foster Company

We have audited the accompanying consolidated balance sheets of L. B. Foster Company and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of L. B. Foster Company and Subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109,* and effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment.* As discussed in Note 16 to the consolidated financial statements, effective December 31, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R).*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of L. B. Foster Company s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP

Pittsburgh, Pennsylvania
March 6, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
L. B. Foster Company

We have audited L.B. Foster Company s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). L. B. Foster Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management s Report on Internal Control over Financial Reporting appearing in Item 9A Controls and Procedures. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, L. B. Foster Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of L. B. Foster Company and Subsidiaries, as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007 and our report dated March 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Ernst & Young LLP

Pittsburgh, Pennsylvania
March 6, 2008

L. B. FOSTER COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	2007	2006
	In thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 121,097	$ 1,309
Accounts receivable net	53,610	61,550
Inventories net	102,447	99,803
Current deferred tax assets	3,615	2,653
Other current assets	1,131	1,133
Property held for resale	2,497	
Prepaid income tax		836
Total Current Assets	284,397	167,284
PROPERTY, PLANT AND EQUIPMENT NET	44,136	49,919
OTHER ASSETS:		
Goodwill	350	350
Other intangibles net	50	62
Investments		16,676
Deferred tax assets	1,411	1,149
Other assets	428	393
Total Other Assets	2,239	18,630
TOTAL ASSETS	$ 330,772	$ 235,833

	2007	2006
	In thousands, except share data	
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 6,191	$ 3,105
Short-term borrowings		726
Accounts payable trade	53,489	57,446
Accrued payroll and employee benefits	11,490	6,892
Current deferred tax liabilities	3,541	3,203
Other accrued liabilities	8,841	4,833
Current liabilities of discontinued operations	200	235

Total Current Liabilities	83,752	76,440
LONG-TERM DEBT, REVOLVING CREDIT FACILITY		39,161
LONG-TERM DEBT, TERM LOAN	16,190	
OTHER LONG-TERM DEBT	11,866	15,112
DEFERRED TAX LIABILITIES	1,638	1,853
OTHER LONG-TERM LIABILITIES	3,500	5,234
COMMITMENTS AND CONTINGENT LIABILITIES (Note 17)		
STOCKHOLDERS EQUITY:		
Common stock, issued 10,915,045 shares in 2007 and 10,538,495 shares in 2006	109	105
Paid-in capital	45,147	39,696
Retained earnings	169,314	58,843
Accumlated other comprehensive loss	(744)	(611)
Total Stockholders Equity	213,826	98,033
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 330,772	$ 235,833

See Notes to Consolidated Financial Statements.

L. B. FOSTER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2007

	2007	2006	2005
	In thousands, except per share data		
NET SALES	$ 508,981	$ 389,788	$ 325,990
COSTS AND EXPENSES:			
Cost of goods sold	432,598	338,197	289,201
Selling and administrative expenses	37,403	33,657	28,579
Interest expense net of capitalized interest of $32 in 2007, $501 in 2006 and $152 in 2005	4,031	3,390	2,472
Dividend income	(9,214)	(990)	(990)
Gain on sale of DM&E investment	(122,885)		
Interest income	(1,196)	(4)	(1)
Other income	(267)	(251)	(295)
	340,470	373,999	318,966
INCOME FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES	168,511	15,789	7,024
INCOME TAX EXPENSE	57,787	5,074	2,176
INCOME FROM CONTINUING OPERATIONS	110,724	10,715	4,848
DISCONTINUED OPERATIONS:			
(LOSS) INCOME FROM DISCONTINUED OPERATIONS, BEFORE INCOME TAXES	(47)	3,153	714
INCOME TAX (BENEFIT) EXPENSE	(16)	338	128
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(31)	2,815	586
NET INCOME	$ 110,693	$ 13,530	$ 5,434
BASIC EARNINGS PER COMMON SHARE:			
FROM CONTINUING OPERATIONS	$ 10.39	$ 1.03	$ 0.48
FROM DISCONTINUED OPERATIONS	(0.00)	0.27	0.06
BASIC EARNINGS PER COMMON SHARE	$ 10.39	$ 1.30	$ 0.54
DILUTED EARNINGS PER COMMON SHARE:			
FROM CONTINUING OPERATIONS	$ 10.09	$ 0.99	$ 0.46
FROM DISCONTINUED OPERATIONS	(0.00)	0.26	0.06
DILUTED EARNINGS PER COMMON SHARE	$ 10.09	$ 1.25	$ 0.52

See Notes to Consolidated Financial Statements.

L. B. FOSTER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE YEARS ENDED DECEMBER 31, 2007

	2007	2006	2005
		In thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	$ 110,724	$ 10,715	$ 4,848
Adjustments to reconcile net income to net cash used by operating activities:			
Gain on sale of DM&E investment	(122,885)		
Deferred income taxes	(1,102)	(2,245)	1,318
Stock option tax benefit			257
Excess tax benefit from share-based compensation	(3,145)	(2,088)	
Depreciation and amortization	8,622	6,144	4,771
Loss (gain) on sale of property, plant and equipment	33	(45)	(182)
Stock-based compensation	115	202	
Unrealized gain on derivative mark-to-market	(34)	(29)	(579)
Change in operating assets and liabilities:			
Accounts receivable	7,940	(16,109)	(9,153)
Inventories	(2,644)	(32,759)	(26,822)
Other current assets	(93)	(334)	83
Prepaid income taxes	3,981	1,834	211
Other noncurrent assets	(9,202)	(1,182)	(1,110)
Accounts payable trade	(3,957)	16,359	14,344
Accrued payroll and employee benefits	4,598	1,017	2,567
Other current liabilities	3,968	1,055	2,044
Other liabilities	(1,977)	2,429	370
Net Cash Used by Continuing Operations	(5,058)	(15,036)	(7,033)
Net Cash (Used) Provided by Discontinued Operations	(66)	1,381	3,180
Net Cash Used by Operating Activities	(5,124)	(13,655)	(3,853)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of property, plant and equipment	18	133	4,541
Proceeds from the sale of DM&E investment	148,775		
Capital expenditures on property, plant and equipment	(5,263)	(17,010)	(15,061)
Net Cash Provided (Used) by Continuing Investing Activities	143,530	(16,877)	(10,520)
Net Cash Provided by Discontinued Investing Activities		5,330	
Net Cash Provided (Used) by Investing Activities	143,530	(11,547)	(10,520)
CASH FLOWS FROM FINANCING ACTIVITIES:			

(Repayments) proceeds of revolving credit agreement borrowings	(39,161)	18,313	6,736
Proceeds from long-term debt, term loan	20,000		
Repayments of long-term debt, term loan	(953)		
(Repayments) proceeds from short-term borrowings	(726)	(5,395)	4,708
Proceeds from exercise of stock options and stock awards	2,195	1,937	738
Excess tax benefit from share-based compensation	3,145	2,088	
(Repayments) proceeds of other long-term debt	(3,118)	7,972	3,507
Net Cash (Used) Provided by Financing Activities	(18,618)	24,915	15,689
Net Increase (Decrease) in Cash and Cash Equivalents	119,788	(287)	1,316
Cash and Cash Equivalents at Beginning of Year	1,309	1,596	280
Cash and Cash Equivalents at End of Year	$ 121,097	$ 1,309	$ 1,596
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest Paid	$ 3,977	$ 3,429	$ 2,190
Income Taxes Paid	$ 51,439	$ 5,934	$ 13

During 2007, 2006 and 2005 the Company financed certain capital expenditures totaling $101,000, $298,000 and $3,981,000 respectively, through the execution of capital leases.

See Notes to Consolidated Financial Statements.

L. B. Foster Company and Subsidiaries

Consolidated Statements of Stockholders Equity for the Three Years Ended December 31, 2007

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
	In thousands, except share and per share data					
Balance, January 1, 2005	$ 102	$ 35,131	$ 39,879	$ (654)	$ (715)	$ 73,743
Net income			5,434			5,434
Other comprehensive (loss) income net of tax:						
Minimum pension liability adjustment					(183)	(183)
Comprehensive income						5,251
Issuance of 144,725 Common shares, net of forfeitures		467		528		995
Balance, December 31, 2005	102	35,598	45,313	(126)	(898)	79,989
Net income			13,530			13,530
Other comprehensive (loss) income net of tax:						
Pension liability adjustment					192	192
Unrealized derivative gain on cash flow hedges					95	95
Comprehensive income						13,817
Issuance of 348,750 Common shares, net of forfeitures	3	4,098		126		4,227
Balance, December 31, 2006	105	39,696	58,843		(611)	98,033
Net income			110,693			110,693
Other comprehensive (loss) income net of tax:						
Pension liability adjustment					72	72
Unrealized derivative loss on cash flow hedges					(205)	(205)
Comprehensive income						110,560
Adjustment to initally adopt FASB Interpretation No. 48			(222)			(222)

Issuance of 376,550 Common shares, net of forfeitures	4	5,451				5,455
Balance, December 31, 2007	$ 109	$ 45,147	$ 169,314	$	$ (744)	$ 213,826

See Notes to Consolidated Financial Statements.

Note 1.

Summary of Significant Accounting Policies

Basis of financial statement presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company transactions have been eliminated. The term Company refers to L. B. Foster Company and its subsidiaries, as the context requires.

Cash and cash equivalents

The Company considers cash and other instruments with maturities of three months or less, when purchased, to be cash and cash equivalents.

Cash equivalents principally consist of investments in money market funds at December 31, 2007. The Company invests available funds in a manner to maximize returns, preserve investment principle and maintain liquidity while seeking the highest yield available.

The following table summarizes the Company s investment in money market funds at December 31, 2007:

	Cost	Fair Value
	In thousands	
Morgan Stanley Liquidity Fund	$ 31,523	$ 31,523
Federated Investors Fund #15	30,347	30,347
Fidelity Tax Exempt Institutional Funds	28,474	28,474
BlackRock Munifund #50	24,148	24,148
	$ 114,492	$ 114,492

The above investments are all tax-free money market funds with municipal bond issuances as the underlying securities all of which maintained AAA credit agency ratings. The carrying amounts approximate fair value because of the short maturity of the instruments.

Inventories

Inventories are generally valued at the lower of the last-in, first-out (LIFO) cost or market. Approximately 36% in 2007 and 29% in 2006, of the Company s inventory is valued at average cost or market, whichever is lower. The reserve for slow-moving inventory is reviewed and adjusted regularly, based upon product knowledge, physical inventory observation, and the age of the inventory.

Property, plant and equipment

Maintenance, repairs and minor renewals are charged to operations as incurred. Major renewals and betterments which substantially extend the useful life of the property are capitalized at cost. Upon sale or other disposition of assets, the costs and related accumulated depreciation and amortization are removed from the accounts and the

resulting gain or loss, if any, is reflected in income.

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of 30 to 40 years for buildings and 3 to 10 years for machinery and equipment. Leasehold improvements are amortized over 2 to 7 years which represent the lives of the respective leases or the lives of the improvements, whichever is shorter. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The Company capitalizes interest costs on long-term assets constructed for its own use. Interest is capitalized and amortized over the estimated useful lives of those assets. Capitalized interest was approximately $32,000, $501,000 and $152,000 in 2007, 2006 and 2005, respectively.

Allowance for doubtful accounts

The allowance for doubtful accounts is recorded to reflect the ultimate realization of the Company s accounts receivable and includes assessment of the probability of collection and the credit-worthiness of certain customers. Reserves for uncollectible accounts are recorded as part of selling and administrative expenses on the Consolidated Statements of Operations. The Company records a monthly provision for accounts receivable that are considered to be uncollectible. In order to calculate the appropriate monthly provision, the Company reviews its accounts receivable aging and calculates an allowance through application of historic reserve factors to overdue receivables. This calculation is supplemented by specific account reviews performed by the Company s credit department. As necessary, the application of the Company s allowance rates to specific customers are reviewed and adjusted to more accurately reflect the credit risk inherent within that customer relationship.

Goodwill and other intangible assets

In accordance with Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , goodwill is tested annually for impairment, or more often if there are indicators of impairment. The goodwill impairment test involves comparing the fair value of a reporting unit to its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss. This step compares the implied fair value of the reporting unit s goodwill to the carrying amount of that goodwill. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, an impairment loss equal to the excess is recorded as a component of continuing operations. On an ongoing basis (absent any impairment indicators), the Company performs its annual impairment tests during the fourth quarter. The Company has performed its impairment testing in the fourth quarter of 2007, 2006 and 2005 and determined that goodwill was not impaired. The carrying amount of goodwill at December 31, 2007 and 2006 was $350,000 and attributable to the Construction segment.

As required by SFAS 142, the Company reassessed the useful lives of its identifiable intangible assets and determined that no changes were required. As the Company has no indefinite lived intangible assets, all intangible assets are amortized over their useful lives ranging from 5 to 10 years, with a total weighted average amortization period of less than seven years. The components of the Company s intangible assets are as follows:

	December 31, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	In thousands			
Non-compete agreements	$ 350	$ (350)	$ 350	$ (350)
Patents	125	(75)	125	(63)
Total	$ 475	$ (425)	$ 475	$ (413)

Amortization expense for the year ended December 31, 2007 was $13,000. Amortization expense for each year ended December 31, 2006 and 2005 was approximately $83,000. Annualized amortization expense is expected to be $13,000 through 2011.

Environmental remediation and compliance

Environmental remediation costs are accrued when the liability is probable and costs are estimable. Environmental compliance costs, which principally include the disposal of waste generated by routine operations, are expensed as incurred. Capitalized environmental costs are depreciated, when appropriate, over their useful life.

Earnings per share

Basic earnings per share is calculated by dividing net income by the weighted average of common shares outstanding during the year. Diluted earnings per share is calculated by using the weighted average of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options utilizing the treasury stock method.

Revenue recognition

The Company s revenues are composed of product sales and products and services provided under long-term contracts. For product sales, the Company recognizes revenue upon transfer of title to the customer. Title generally passes to the customer upon shipment. Revenue is reported net of freight for sales from stock inventory and direct shipments. Freight recorded for the years ended December 31, 2007, 2006 and 2005 amounted to $19,219,000, $16,262,000 and $15,185,000, respectively. Revenues for products and services under long-term contracts are generally recognized using the percentage-of-completion method based upon the proportion of actual costs incurred to estimated total costs. For certain products, the percentage of completion is based upon actual labor costs to estimated total labor costs.

As certain long-term contracts extend over one or more years, revisions to estimates of costs and profits are reflected in the accounting period in which the facts that require the revisions become known. At the time a loss on a contract becomes known, the entire amount of the estimated loss is recognized immediately in the financial statements. The Company has historically made reasonably accurate estimates of the extent of progress towards completion, contract revenues, and contract costs on its long-term contracts. However, due to uncertainties inherent in the estimation process, actual results could differ materially from those estimates.

Revenues from contract change orders and claims are recognized when the settlement is probable and the amount can be reasonably estimated. Contract costs include all direct material, labor, subcontract costs and those indirect costs related to contract performance. Costs in excess of billings, and billings in excess of costs are classified as a current asset.

Fair value of financial instruments

The Company s financial instruments consist of accounts receivable, accounts payable, short-term and long-term debt, foreign currency forward contracts and interest rate agreements.

The carrying amounts of the Company s financial instruments at December 31, 2007 and 2006 approximate fair value.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock-based compensation

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), Share-Based Payment and related interpretations (SFAS No. 123R) using the modified prospective method and accordingly did not restate prior period results. Under SFAS No. 123R, share-based compensation cost is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the employees requisite service period, generally the vesting period of the award.

As a result of adopting SFAS No. 123R, the Company recorded stock compensation expense of $115,000 and $202,000 for the years ended December 31, 2007 and 2006, respectively. The related deferred tax benefits were $45,000 and $65,000, respectively.

At December 31, 2007, there was $129,000 of compensation expense related to nonvested awards which is expected to be recognized over a weighted-average period of 1.2 years. At December 31, 2006, there was $237,000 of

compensation expense related to nonvested awards which was expected to be recognized over a weighted-average period of 2.1 years.

Prior to the adoption of SFAS No. 123R, the Company accounted for stock options to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees , and related interpretations. We also provided the disclosures required under SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), as amended by SFAS No. 148,

Accounting for Stock-Based Compensation Transition and Disclosures . As a result, no expense was reflected in net income for the year ended December 31, 2005.

The table below reflects pro forma net income and earnings per share for the period shown had compensation for stock options been determined based on the fair value at the grant date, consistent with the methodology prescribed under SFAS No. 123.

		Year Ended December 31, 2005 In thousands, except per share amounts
Net income, as reported	$	5,434
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects		199
Pro forma net income	$	5,235
Earnings per share Basic, as reported	$	0.54
Basic, pro forma	$	0.52
Diluted, as reported	$	0.52
Diluted, pro forma	$	0.49

Derivative financial instruments and hedging activities

The Company does not purchase or hold any derivative financial instruments for trading purposes. The Company uses derivative financial instruments to manage interest rate exposure on variable-rate debt, primarily by using interest rate collars and variable interest rate swaps. The Company s primary source of variable-rate debt comes from its revolving credit agreement. In conjunction with the Company s debt refinancing in 2002, the Company discontinued cash flow hedge accounting treatment for its interest rate collars and has applied mark-to-market accounting prospectively.

During 2005, the Company had one LIBOR-based interest rate collar agreement remaining. This agreement, which became effective in March 2001 and expired in March 2006, had a notional value of $15.0 million, a maximum annual interest rate of 5.60% and a minimum annual interest rate of 5.00%. On March 6, 2005, the counterparty to the agreement exercised its option to convert the collar to a one-year, fixed-rate instrument with interest payable at an annual rate of 5.49%.

With the debt refinancing in 2002, the collar agreements were not deemed to be an effective hedge of the new credit facility in accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). However, the Company retained these instruments as protection against interest rate risk associated with the new credit agreement and the Company recorded the mark-to-market adjustments on these instruments in its consolidated statements of operations. The remaining interest rate collar expired in March 2006. For the years ended December 31, 2006, and 2005, the Company recognized income of $29,000 and $377,000, respectively, to adjust these instruments to fair value.

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 as the underlying hedged items affect earnings. To the extent that a change in interest rate derivative does not

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

The Company is not subject to significant exposures to changes in foreign currency exchange rates. The Company will, however, 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.

During 2004, the Company entered into commitments to sell Canadian funds based on the anticipated receipt of Canadian funds from the sale of certain rail through March 2006. During the fourth quarter of 2004, the Company determined that the receipt of Canadian funds would not coincide with the sale commitments and the Company recorded a $202,000 loss to record these commitments at market. The remaining Canadian sell commitment was executed on September 30, 2005 at a loss of $130,000. During 2005, the Company recognized income of $72,000 to adjust these commitments to fair value.

During 2006, the Company entered into commitments to sell Canadian funds based on the anticipated receipt of Canadian funds from the sale of certain rail commencing in the second quarter of 2007 through the third quarter of 2008. The fair value of these instruments was a liability of $172,000 and an asset of $146,000 as of December 31, 2007 and 2006, respectively. The liability is recorded in Other Accrued Liabilities. The current portion of the asset is recorded in Other Current Assets and the noncurrent portion is recorded in Other Assets. During 2007, three of these Canadian sell commitments were executed at a loss of $34,000.

Reclassification

Certain items previously reported as other income/expense have been reclassified in more detail to conform to the 2007 presentation. The reclassifications did not affect the net income or cash flows of the Company.

Product Liability

The Company maintains a current liability for the repair or replacement of defective products. For certain manufactured products, an accrual is made on a monthly basis as a percentage of cost of sales. For long-term construction products, a liability is established when the claim is known and quantifiable. The product liability accrual is periodically adjusted based on the identification or resolution of known individual product liability claims. At December 31, 2007 and 2006, the product liability was $1,886,000 and $1,585,000, respectively.

Asset retirement obligations

During the fourth quarter of 2005, in connection with the completion of the refurbishment and the extension of the lease of the Grand Island, NE facility the Company recorded a liability for Asset Retirement Obligations (ARO) of approximately $212,000. During the fourth quarter of 2006, the Company recorded a liability of approximately $449,000 for an ARO in connection with the completion of the Tucson, AZ concrete railroad tie facility.

A reconciliation of our liability for ARO s at December 31, 2007 and 2006, which is recorded in Other Long-Term Liabilities, is as follows:

	2007	**2006**
	In thousands	
Asset retirement obligation at beginning of year	$ 676	$ 212
Liabilities incurred		449
Accretion expense	41	15
Asset retirement obligation at end of year	$ 717	$ 676

Income Taxes

The Company makes judgments regarding the recognition of deferred tax assets and the future realization of these assets. As prescribed by SFAS No. 109, Accounting for Income Taxes (SFAS 109), valuation allowances must be provided for those deferred tax assets for which it is more likely than not (a likelihood more than 50%) that some portion or all of the deferred tax assets will not be realized. SFAS 109 requires the Company to evaluate positive and negative evidence regarding the recoverability of deferred tax assets. Determination of whether the positive evidence outweighs the negative and quantification of the valuation allowance requires the Company to make estimates and judgments of future financial results.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). This

Interpretation, adopted by the Company on January 1, 2007, applies to all open tax positions accounted for in accordance with SFAS 109. This Interpretation is intended to result in increased relevance and comparability in financial reporting of income taxes and to provide more information about the uncertainty in income tax assets and liabilities. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes.

New accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, rather it applies under existing accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The adoption of this standard is not expected to have a significant effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of SFAS No. 115, (SFAS 159). SFAS 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting principles generally accepted in the United States. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of this standard will not have a significant effect on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS 141R) which replaces SFAS No. 141. SFAS 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning after December 15, 2008. The Company will adopt the provisions of this standard beginning January 1, 2009.

Note 2.

Accounts Receivable

Accounts Receivable at December 31, 2007 and 2006 are summarized as follows:

	2007	2006
	In thousands	
Trade	$ 54,360	$ 61,943
Allowance for doubtful accounts	(1,504)	(1,172)
Other	754	779
	$ 53,610	$ 61,550

Bad debt expense (income) was $279,000, $262,000 and $(69,000) in 2007, 2006 and 2005, respectively.

The Company s customers are principally in the Rail, Construction and Tubular segments of the economy. As of December 31, 2007 and 2006, trade receivables, net of allowance for doubtful accounts, from customers in these markets were as follows:

	2007	2006
	In thousands	
Rail	$ 18,455	$ 21,292
Construction	30,864	35,516
Tubular	3,455	2,143
	$ 52,774	$ 58,951

Credit is extended on an evaluation of the customer s financial condition and generally collateral is not required.

Note 3.

Inventories

Inventories at December 31, 2007 and 2006 are summarized as follows:

	2007	2006
	In thousands	
Finished goods	$ 92,962	$ 84,578
Work-in-process	5,121	6,397
Raw materials	16,786	18,297
Total inventories at current costs	114,869	109,272
Less:		
Current cost over LIFO stated values	(8,605)	(7,142)
Inventory valuation reserve	(3,817)	(2,327)
	$ 102,447	$ 99,803