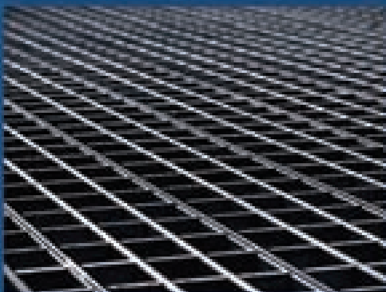
LBFoster

ANNUAL REPORT



NASDAQ : FSTR

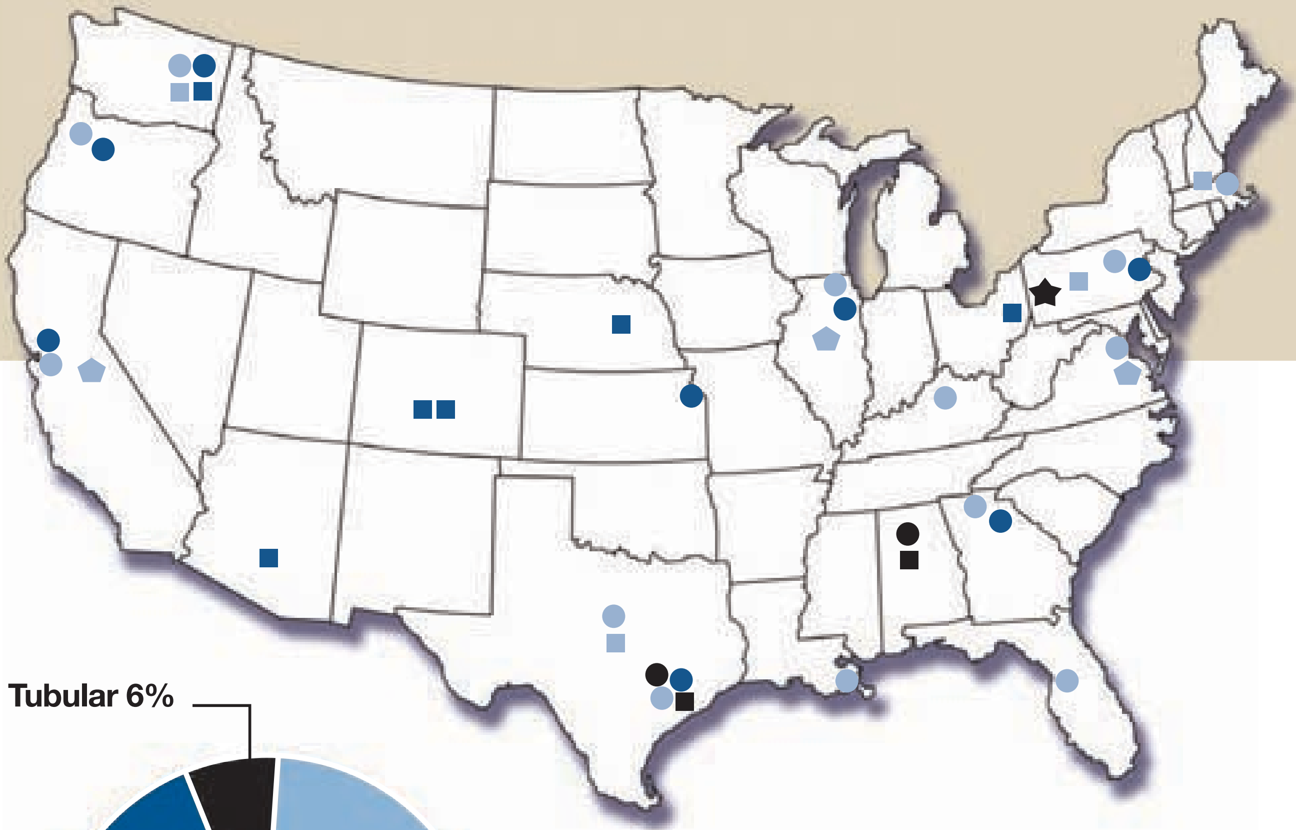
Quality Products for the Rail, Construction, Utility and Energy Industries

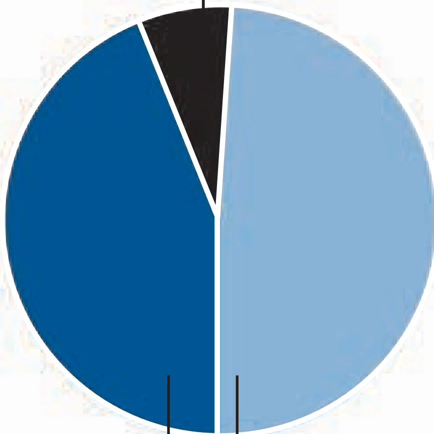
LBFoster

Since our establishment in 1902, L.B. Foster Company has delivered the products necessary to build and maintain our nation's infrastructure. Today, we remain a quality manufacturer, fabricator and distributor of products for the rail, construction, utility and energy industries.

L.B. Foster is committed to providing superior products and services to our customers and sustainable profitable growth to our shareholders. This commitment is built on the quality of our work force and their continuous improvement and customer focus.

LB Foster is so much More

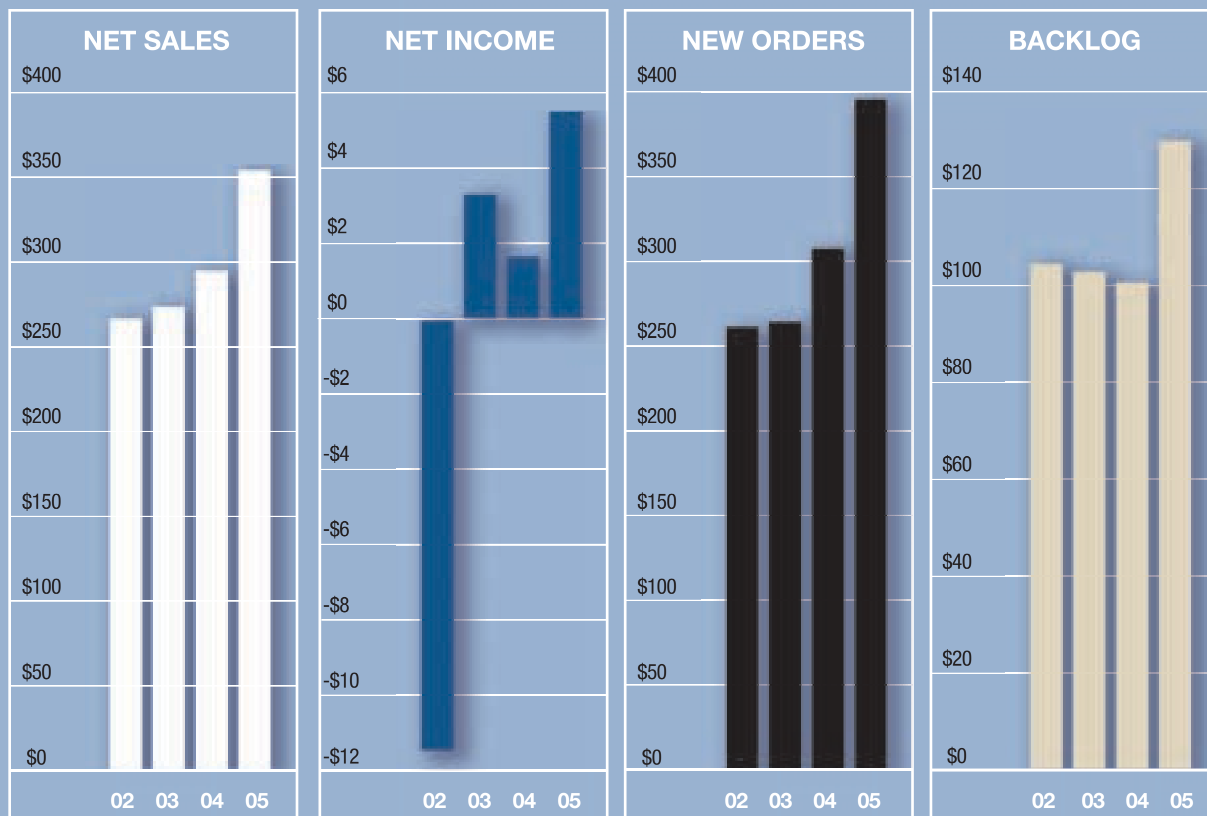




FINANCIAL HIGHLIGHTS

	2005 (1)	2004 (2)	2003 (3)
Net Sales	**$ 353,484,000**	$ 297,866,000	$ 264,266,000
Operating Profit	**$ 8,924,000**	$ 2,734,000	$ 4,796,000
Income from Continuing Operations	**$ 5,434,000**	$ 1,480,000	$ 2,163,000
Income from Discontinued Operations, Net of Tax	**$ -**	$ -	$ 1,277,000
Net Income	**$ 5,434,000**	$ 1,480,000	$ 3,440,000
Basic Earnings Per Common Share:			
Continuing Operations	**$ 0.54**	$ 0.15	$ 0.23
Discontinued Operations	**$ -**	$ -	$ 0.13
Basic Earnings Per Common Share	**$ 0.54**	$ 0.15	$ 0.36
Diluted Earnings Per Common Share:			
Continuing Operations	**$ 0.52**	$ 0.14	$ 0.22
Discontinued Operations	**$ -**	$ -	$ 0.13
Diluted Earnings Per Common Share	**$ 0.52**	$ 0.14	$ 0.35
New Orders Entered	**$ 390,399,000**	$ 304,099,000	$ 263,444,000
Backlog	**$ 129,455,000**	$ 100,064,000	$ 105,664,000
Current Ratio	**1.87 to 1**	2.25 to 1	2.48 to 1
Number of Employees	**641**	621	625

(1) 2005 includes a benefit of $450,000 due to the release of valuation allowance related to the Company's ability to utilize state net operating losses and other state tax incentives prior to their expiration.
(2) 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".
3) 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.



FELLOW SHAREHOLDERS:

2005 was an exciting year for L.B. Foster, a year in which we established a solid platform for future successes within the Company.

The year began with the execution of a long-term supply contract with the Union Pacific Railroad for concrete ties. This agreement gives us the ability to manufacture and supply concrete ties at three L.B. Foster plants. To provide for the needed increase in production capacity, we completely rebuilt our Grand Island, NE plant using innovative, long-line technology. This plant was commissioned in the third quarter and is now producing high quality concrete ties on a consistent basis. We have since announced the groundbreaking of our new concrete tie plant in Tucson, AZ. It is scheduled to come online in mid-2006 and will use the same technology. These plants position us to meet the growing demand in North America for concrete ties.

Affecting our key end markets, two pieces of federal legislation were passed during 2005 that will stimulate demand in literally all of our product lines. The $286 billion federal transportation and highway bill, SAFETEA-LU, was signed into law on August 10, 2005. This legislation is the largest highway spending bill in history and will provide public funds for a number of transportation projects through 2009. Virtually all businesses within L.B. Foster will be positively impacted by this bill. In addition, the President signed into law last summer the Energy Policy Act of 2005 that provides broad-ranging legislation affecting nearly every facet of the US energy industry. L.B. Foster is poised to take advantage of changes in domestic energy production and consumption that will result from this legislation.

In addition, the railroad industry has experienced an unprecedented revival in demand for its services. This has placed a burden on their existing shipping capacities, requiring new track construction and acceleration of maintenance-of-way programs. Authorization for federal government backed low-interest Railroad Rehabilitation and Improvement Financing (RRIF) loans increased to $35 billion from $3.5 billion, giving railroads access to low cost financing to aid in maintenance programs and capacity expansion.

We recently launched two new rail products that provide significant benefits for our customers. First, we introduced innovative bonded insulated joints with improved reinforcement materials that provide railroads with extended track life. In addition, we formed an alliance with UK-based QHi, Ltd. that allows us to assemble and distribute wayside lubricators. These devices provide rail lubrication to improve railroad energy efficiencies and extend rail life. Late in the year, we acquired property and equipment in Pueblo, CO to manufacture both products. This facility, coupled with our plant in Niles, OH, gives us more logical eastern and western US locations to manufacture and ship these products to our customer base.

A long-term agreement was signed with the Northwest Pipe Company, enabling us to distribute their spiral weld pipe on a national basis for foundation applications. For Construction Products, this is an important Piling product line extension. This complements our expanded product range and availability from other key suppliers, as well as market penetration with our pipe piling products and rental piling, to serve growing construction markets throughout the US.

Late in the year, we made a strategic decision to shed certain assets related to our Geotechnical Products business. With this divestment, which closed in early 2006, we are now in a much better position to deploy our capital toward more strategically important projects throughout the company.

In July, we successfully conducted our first quarterly earnings webcast. In addition, we were added to the Russell Microcap™ Index last year. Several new initiatives will be implemented in 2006 to further expand our investor relations programs.

On the operations side, we have continued to make huge strides in two key areas. First, we remain committed to implement Lean process improvement techniques across the company. Existing manufacturing facilities have all implemented Lean and new facilities at Grand Island, Pueblo and Tucson will incorporate Lean. While our initial efforts have targeted our manufacturing and distribution operations, we have also begun to apply Lean on the administrative and sales side of the business, addressing issues that arose out of our first ever customer satisfaction survey conducted last year. Second, our safety performance last year demonstrated continuing progress. The Total Recordable Incidence Rate fell to 4.3 in 2005. Our DART (Days Away/Restricted Time) Incidence Rate last year hit 2.4. Since the inception of our corporate safety initiative in 2003, both Total Recordables and DARTs are down by nearly 80%. Based on its safety record over the past three years, our Fabricated Products' Bedford facility received the Pennsylvania Governor's Award for Safety Excellence.

Looking at our results, the Company's overall performance was much improved last year. Sales were up 19% vs. 2004 and Net Income grew by 267%. At the end of 2005, our consolidated order backlog was up 29% over the prior year. Various product lines made good progress toward our strategic revenue and profitability goals.

Last year was definitely a year of significant accomplishments within the company. However, we are not yet satisfied. With strong markets, continuously revitalized internal processes and a dedication to be the best, L.B. Foster is well positioned for future profitable growth.

I want to extend my sincere appreciation to our shareholders for your support and encouragement as we move into what will be a very exciting period. To our employees, I am proud to be a part of your team and I applaud your dedication and hard work.

Stan L. Hasselbusch
President and Chief Executive Officer

Markets Served

L.B. Foster Company is committed to meeting customer requirements and increasing customer satisfaction through continual improvement of its products and services. Our Company markets its products to industries needing rail and accessories; piling; bridge decking and highway products; precast concrete buildings; threaded pipe; and coated pipe.

Rail Industry

L.B. Foster Rail Products is a leading manufacturer and supplier of rail and accessories for railroads, transit systems and other industrial applications in the Western Hemisphere. Rail Products consists of six individual product lines and service units.

Our New Rail product line supplies rail and accessories for freight and passenger railroads, transit agencies, crane rail systems, port authorities, general industries and mining operations. Relay Rail Products provide used rail for many diverse needs. Allegheny Rail Products manufactures quality insulated rail joints and related products. Transit Products provides commuter and light rail transit systems with direct fixation fasteners, contact rail and related products. The Track Panel product line manufactures a full line of new and relay products in both light and heavy rail sections. CXT® Concrete Ties uses innovative technology to manufacture high performance concrete rail and industrial ties.

Construction Industry

L.B. Foster Construction Products consists of Piling, Fabricated Bridge Products, Precise Structural Products and CXT® Concrete Buildings. These individual units work nationally with customers who are primarily contractors for municipal, state and federal government projects.

L.B. Foster Piling offers the industry's most extensive array of piling products. The Company's full line of steel piling and accessories is available for sale or rent for construction projects throughout North America. Fabricated Bridge Products and Precise Structural Products provides structural steel, bridge decking, and railing and drainage systems for the construction and rehabilitation of the nation's bridges, highways and buildings. CXT® Concrete Buildings is America's leading manufacturer of vandal and weather resistant concrete restrooms, showers and utility buildings.

Utility and Energy Industries

Tubular Products consists of two individual product lines. Coated Products applies protective fusion bond epoxy (FBE), abrasion resistant overcoatings (ARO) and internal linings to steel line pipe and pipe piling. The Company's ISO 9001:2000 registered facility is located on the Birmingham, Alabama site of American Cast Iron Pipe Company. Threaded Products supplies the industrial, municipal and agricultural markets with a full line of pump column, flanged column and accessories.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 0-10436

L. B. FOSTER COMPANY
(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1324733**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*
415 Holiday Drive, Pittsburgh, Pennsylvania	**15220**
(Address of principal executive offices)	*(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
None	

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value $0.01.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☑ 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 from their obligations under those Sections. ☐ Yes ☑ 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) as been subject to such filing requirements for the past 90 days. ☑ Yes ☐ 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. ☑

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☑ 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, as of the last business day of the registrant's most recently completed second fiscal quarter was $90,067,636.

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

Class	Outstanding at February 22, 2006
Common Stock, Par Value $0.01	10,194,745 shares

Documents Incorporated by Reference:

Portions of the Proxy Statement prepared for the 2006 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	7
Item 3.	Legal Proceedings	7
Item 4.	Submission of Matters to a Vote of Security Holders	8
Item 4A.	Executive Officers of the Registrant	8

PART II

Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities	10
Item 6.	Selected Financial Data	11
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	26
Item 8.	Financial Statements and Supplementary Data	27
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	54
Item 9A.	Controls and Procedures	54
Item 9B.	Other Information	54

PART III

Item 10.	Directors and Executive Officers of the Registrant	54
Item 11.	Executive Compensation	55
Item 12.	Security Ownership of Certain Beneficial Owners and Management	55
Item 13.	Certain Relationships and Related Transactions	55
Item 14.	Principal Accounting Fees and Services	55

PART IV

Item 15.	Exhibits, Financial Statement Schedules	55
	Financial Statements	55
	Financial Statement Schedule	56
	Exhibits	57
	Signatures	59
	Certifications	60

PART I

ITEM 1. *BUSINESS*

Summary Description of Businesses

L. B. Foster Company is engaged in the manufacture, fabrication and distribution of products that serve the nation's surface transportation infrastructure. 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, H-bearing and pipe piling, and rents steel sheet piling for foundation and earth retention requirements. In addition, Foster supplies fabricated structural steel, bridge decking, bridge railing, expansion joints, mechanically stabilized earth wall systems, 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.

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 19. 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		
	2005	2004	2003
Rail Products	45%	48%	48%
Construction Products	49	46	46
Tubular Products	6	6	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 makes some sales of 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 and industrial customers 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 made in-house and subcontracted.

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.

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 works 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, as well as mechanically stabilized earth wall systems. 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.

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. The Company recently entered the micropile market 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 74 people, including outside sales, inside sales, and customer service representatives. The Company maintains 17 sales offices and 16 plants or warehouses nationwide. During 2005, approximately 7% 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 H-bearing pile in North America. See Note 18 to the consolidated financial statements for additional information on this matter.

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, 2005 and 2004 by segment follows:

	December 31,	
	2005	2004
	In thousands	
Rail Products	$ 56,567	$ 29,079
Construction Products	71,374	67,736
Tubular Products	1,514	3,249
	$129,455	$100,064

At December 31, 2005 and 2004, the Construction Products segment backlog included approximately $29.0 million and $28.0 million, respectively, related to the Company's Geotechnical division. In February 2006, assets related to this division were sold. See Note 21, "Subsequent Event" for details about the transaction.

Approximately 4% of the December 31, 2005 backlog is related to projects that will extend beyond 2006.

RESEARCH AND DEVELOPMENT

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

ENVIRONMENTAL DISCLOSURES

While it is not possible to quantify with certainty 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

The Company has 641 employees, of whom 378 are hourly production workers and 263 are salaried employees. Approximately 184 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.

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 other 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 2005 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 certain product categories. Significant negative developments in these areas could adversely affect our financial results and condition.

Customer Reliance

L. B. 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 supplied by Foster could impact our results of operations and/or financial condition.

Supplier Reliance

In certain of our 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, or an unwillingness to continue to sell to us, could adversely impact our financial results.

Raw material costs and availability

Most of L. B. 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 buildings businesses. Cement prices have increased over the last two years, while availability in certain areas of the country has been in short supply to the point to where cement has been rationed. This has not had an impact on L. B. Foster as yet, but it could present problems for our new 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.

New Facilities

L. B. Foster may not be able to effectively implement its new manufacturing systems in Tucson, AZ and Pueblo, CO. Failure to implement an efficient manufacturing facility in a cost effective manner would make it difficult for the Company to earn an appropriate return on its investments.

Value of our investment in the DM&E Railroad

We maintain an ownership interest of approximately 13.4% in The Dakota, Minnesota & Eastern Railroad ("DM&E"), a privately held regional railroad that controls over 2,500 miles of track in eight states. More information on the DM&E can be found on page 22. The value of the DM&E and L. B. Foster's ultimate monetization of such value is subject to various risks and uncertainties that are discussed on page 24.

Union Workforce and Labor Relations

Three of our manufacturing facilities are staffed by employees represented by labor unions. These 184 employees are currently working under two separate collective bargaining agreements that expire in March 2008 and September 2007. We may not be able to successfully negotiate the renewal of these agreements. 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 or the actual 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	2007
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.	65	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	2006
Spokane, WA	Precast concrete facility.	5	Construction	2007
Tucson, AZ	CXT concrete tie plant.	19	Rail	2012

Including the properties listed above, the Company has 17 sales offices, including its headquarters in Pittsburgh, PA, and 16 warehouse, plant and yard facilities located throughout the country. The Company's facilities are in good condition. During 2006, the Company will complete the construction of a new concrete tie facility in Tucson, AZ and a rail joint and rail lubricator facility in Pueblo, CO in order to maintain adequate production facilities for its present and foreseeable future requirements.

ITEM 3. *LEGAL PROCEEDINGS*

In 2000, the Company's subsidiary sold concrete railroad crossing panels to a general contractor on a Texas transit project. Due to a variety of factors, including deficiencies in the owner's project specifications, the panels have deteriorated and the owner either has replaced or is in the process of replacing these panels. The general contractor and the owner are currently engaged in dispute resolution procedures, which we believe will be resolved in 2006. The general contractor has notified the Company that, depending on the outcome of

these proceedings, it may file a suit against the Company's subsidiary. 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.

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.

The Trustees of the Colorado Contractors Trust (the "Trust") filed suit on November 3, 2005 in the District Court, County of Denver, Colorado against the Company, its bonding company, the general contractor and the general contractor's bonding companies. The Trust is a multiple employer employee benefit plan. The Trust alleges that a supplier, which the Company used in connection with a project in the Denver, CO area, failed to pay the Trust required contributions for employee health coverage. The Trust alleges that the Company is liable as an "alter ego" of its supplier. In addition, the Company may have indemnification obligations with respect to similar claims against the general contractor and its bonding companies. Although the amount of the Trust's claim is unclear, the Trust apparently seeks more than $300,000, plus interest and attorneys' fees. The Company intends to vigorously defend itself against the Trust's claims.

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	59	Chairman of the Board
Stan L. Hasselbusch	58	President and Chief Executive Officer
Alec C. Bloem	55	Senior Vice President — Concrete Products
Merry L. Brumbaugh	48	Vice President — Tubular Products
Samuel K. Fisher	53	Senior Vice President — Rail
Donald L. Foster	50	Senior Vice President — Construction Products
Robert J. Howard	50	Vice President — Human Resources
John F. Kasel	41	Senior Vice President — Operations and Manufacturing
Gregory W. Lippard	37	Vice President — Rail Product Sales
Linda K. Patterson	56	Controller
David J. Russo	47	Senior Vice President, Chief Financial Officer and Treasurer
David L. Voltz	53	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.

Mr. Bloem was elected Senior Vice President — Concrete Products in March 2000, having previously served as Vice President — Geotechnical and Precast Division from October 1999, and President — Geotechnical Division from August 1998. Prior to joining the Company in August 1998, Mr. Bloem served as Vice President — VSL Corporation.

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. Howard was elected Vice President — Human Resources in June 2002. Mr. Howard was Vice President — Human Resources of Bombardier Transportation, the former Daimler Chrysler Rail Systems, a supplier of rail vehicles, transportation systems and services, worldwide, from January 1992 until June 2002. Mr. Howard also served as Director of Employee Relations with USAirways from 1981 until 1992.

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. 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 THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Stock Market Information

The Company had 646 common shareholders of record on January 31, 2006. Common stock prices are quoted daily through the National Association of Security Dealers, Inc. in its over-the-counter NASDAQ 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:

	2005		2004	
Quarter	High	Low	High	Low
First	$ 9.51	$ 8.85	$8.97	$6.50
Second	9.89	8.71	8.25	7.50
Third	14.49	9.27	9.08	6.90
Fourth	15.75	12.41	9.60	7.75

Dividends

No cash dividends were paid on the Company's Common stock during 2005 and 2004, 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.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2005 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 (Exluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by shareholders	1,042,450	$5.01	42,125
Equity compensation plans not approved by shareholders	—	—	—
Total	1,042,450	$5.01	42,125

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 was 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 receive 2,500 shares of the Company's common stock at each annual shareholder meeting at which such outside director is elected or re-elected, commencing with the Company's 2003 Annual Shareholders' Meeting. Through 2005 there have been 30,000 shares issued under this plan.

The Company's Board of Directors has authorized the purchase of up to 1,500,000 shares of its Common stock at prevailing market prices. No purchases have been made since the first quarter of 2001. From August 1997 through March 2001, the Company repurchased 973,398 shares at a cost of approximately $5.0 million. The timing and extent of future purchases will depend on market conditions and options available to the Company for alternate financing sources.

ITEM 6. *SELECTED FINANCIAL DATA*

Income Statement Data	Year Ended December 31,				
	2005(1)	2004(2)	2003(3)	2002(4)	2001(5)(6)
	(All amounts are in thousands, except per share data)				
Net sales	$353,484	$297,866	$264,266	$257,950	$282,119
Operating profit	$ 8,924	$ 2,734	$ 4,796	$ 2,992	$ 5,098
Income (loss) from continuing operations	$ 5,434	$ 1,480	$ 2,163	$ (5,029)	$ 1,303
Income (loss) from discontinued operations, net of tax	—	—	1,277	(2,005)	(666)
Cumulative effect of change in accounting principle	—	—	—	(4,390)	—
Net income (loss)	$ 5,434	$ 1,480	$ 3,440	$(11,424)	$ 637
Basic earnings (loss) per common share:					
Continuing operations	$ 0.54	$ 0.15	$ 0.23	$ (0.53)	$ 0.14
Discontinued operations	—	—	0.13	(0.21)	(0.07)
Cumulative effect of change in accounting principle	—	—	—	(0.46)	—
Basic earnings (loss) per common share	$ 0.54	$ 0.15	$ 0.36	$ (1.20)	$ 0.07
Diluted earnings (loss) per common share:					
Continuing operations	$ 0.52	$ 0.14	$ 0.22	$ (0.53)	$ 0.14
Discontinued operations	—	—	0.13	(0.21)	(0.07)
Cumulative effect of change in accounting principle	—	—	—	(0.46)	—
Diluted earnings (loss) per common share	$ 0.52	$ 0.14	$ 0.35	$ (1.20)	$ 0.07

(1) *2005 includes a benefit of $450,000 due to the release of valuation allowance related to the Company's ability to utilize state net operating losses and other state tax incentives prior to their expiration.*

(2) *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".*

(3) *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.*

(4) *2002 includes the following non-cash charges: a $5,050,000 write-off of advances made to a specialty trackwork supplier which were not expected to be recovered; a $1,893,000 charge related to an "other than temporary" impairment of the Company's equity investment in that trackwork supplier; a $765,000 charge for depreciation expense from assets that had been classified as held for resale, but the sale did not materialize; a $660,000 impairment charge to adjust assets related to the Company's rail signaling business, classified as a discontinued operation, to their expected fair value; a $4,390,000, net of tax,*

charge from the cumulative effect of a change in accounting principle as a result of the adoption of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets"; and a $2,232,000 charge related to mark-to-market accounting for derivative instruments.

(5) *2001 includes pretax charges of approximately $1,879,000 related to the Company's plan to consolidate sales and administrative functions and plant operations; and $423,000 goodwill amortization, net of tax.*

(6) *2001 was restated to reflect the classification of the Company's rail signaling business as a discontinued operation.*

	December 31,				
Balance Sheet Data	**2005**	**2004**	**2003**	**2002**	**2001**
Total assets	$178,286	$134,095	$131,159	$133,984	$160,042
Working capital	56,095	46,831	46,844	46,694	62,011
Long-term debt	29,276	17,395	20,858	26,991	32,758
Stockholders' equity	79,989	73,743	70,544	66,013	77,145

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

Overview

General

L.B. Foster Company is a manufacturer, fabricator and distributor of products utilized in the transportation infrastructure, construction 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 450 Fifth Street N.W. 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 segment is comprised of several manufacturing and distribution businesses that provide a variety of products utilized by 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 L.B. Foster Company as well as products sourced from numerous suppliers. These products are provided as a package to rail lines, transit authorities and construction contractors which decreases the procurement effort required by customers and provides value added, just in time delivery.

The Rail 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 railroad ties and turnout ties. The Company has concrete tie manufacturing facilities in both Spokane, WA and Grand Island, NE, and is constructing a new facility in Tucson, AZ where we expect to commence tie manufacturing late in the second quarter of 2006. 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 segment is comprised of the following business units: Piling, Fabricated Products, Precast concrete wall retention systems ("Geotechnical division") and Precast Concrete Buildings.

The Piling division, via a sales force deployed throughout the United States, markets and sells piling worldwide. 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 beam 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 Geotechnical division engineers and supplies large mechanically stabilized earth retention projects ("MSE Walls") and concrete soundwall systems primarily for highway construction projects. Although precasting of this product is usually outsourced to a qualified third party, the Company does manufacture MSE Walls at its facilities in Hillsboro, TX, Spokane, WA and Grand Island, NE. The Company sold this business in February 2006. See "Recent Developments", below.

The Precast Building unit manufactures concrete buildings primarily for national parks as well as numerous state and municipal park authorities. 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 segment is comprised of 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 oil and gas 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 micropile business and threads pipe used in earth and other structural stabilization.

2005 Developments

In May, we entered into an amended and restated credit agreement with a consortium of commercial banks. The new agreement provided for a $60.0 million five-year revolving credit facility expiring in May 2010. In September 2005, we amended this agreement to increase the credit line to $75.0 million.

Subsequent to the January 2005 completion of a concrete tie supply agreement with the Union Pacific Railroad, we installed new tie-manufacturing equipment in July at our refurbished facility in Grand Island, NE and commenced production of concrete ties in September.

Certain of our businesses, especially our Fabricated Products group, have been hampered with low volumes and margins due to the delay in passing successor legislation to TEA-21, which was a highway and transportation funding bill that expired in September 2003. In August, new legislation (SAFETEA-LU) was enacted authorizing $286 billion for United States transportation improvement spending for the next four years. We do not expect this new legislation to have a positive impact on the financial results of these businesses in 2006.

In November, we purchased a 55,000 square foot facility in Pueblo, CO. We plan to use this site to increase production capacity for our Rail Products businesses. We will manufacture insulated rail joints that

were previously outsourced to an exclusive supplier, and assemble Electro 20 Lubricators at the new facility. Equipment installation and commissioning is expected to commence late in the first quarter of 2006.

Recent Developments

In January 2006, we received the permitting necessary to begin construction on a concrete tie manufacturing facility in Tucson, AZ. Construction began almost immediately after permitting. The new plant will add further capacity to our existing facilities in Grand Island, NE and Spokane, WA.

Effective in February 2006, Northwest Pipe Company selected L.B. Foster Company as its North American distributor of spiral weld pipe piling. This represents the first national agreement for Northwest spiral weld pipe piling. We will provide all sales and customer support for their spiral weld pipe piling product line and will provide an extensive network of locations to serve the market.

The Federal Surface Transportation Board ("STB") issued its formal and final decision on February 13, 2006 which permits the Dakota, Minnesota & Eastern Railroad ("DM&E") to construct a 290 mile extension from its existing rail line into the Powder River Basin in Wyoming and to rebuild approximately 600 miles of its existing track. We maintain a significant investment in the DM&E. Please see "Dakota, Minnesota & Eastern Railroad" in this Management's Discussion & Analysis for additional information.

In February 2006, we sold assets related to our Foster Geotechnical division to The Reinforced Earth Company for $4.0 million plus the net asset value of the fixed assets, inventory, work in progress and prepaid items. The Company anticipates realizing a net gain of approximately $3.0 million from this transaction.

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 U.S. generally accepted accounting principles. 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 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, 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.

Goodwill and other intangible assets — The Company follows Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") whereby goodwill and intangible assets deemed to have an indefinite life are subject to annual impairment tests. The impairment testing is a two step process. The first step, which is used to identify potential impairment only, compares the fair value of each reporting unit that has goodwill with its carrying value. Since quoted market prices are not readily available for the Company's reporting units, the Company estimates fair value of the reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds it carrying

amount, goodwill is not considered to be impaired and the second step of the process is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the impairment testing must be performed to measure the amount of the impairment loss, if any. Step two requires a hypothetical purchase price allocation be done to determine the implied fair value of goodwill. The resulting fair value is then compared to the carrying value of goodwill. If the implied fair value of the goodwill is lower than the carrying value of goodwill, impairment must be recorded.

The Company believes that the accounting estimates used in this testing are "critical accounting estimates" because the underlying assumptions used for the discounted cash flow can change from period to period affecting the fair value calculation which may have a material impact to the income statement. Management's assumptions require significant judgments related to anticipated revenues, and other internal and external economic conditions such as growth rate, discount rate and inflation. At December 31, 2005 and 2004, the goodwill on the Company's balance sheet was $0.4 million.

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, 2005 and 2004, the Company maintained an allowance for bad debts of $1.0 million.

Product Liability — The Company maintains a current liability for the repair or replacement of defective products. For certain manufactured products, a nominal 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 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, 2005 and 2004, the product liability was $0.5 million and $0.6 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, 2005 and 2004, the reserve for slow-moving inventory was $1.7 million and $1.4 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 Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87"). The expected long-term rate of return determined by the Company for 2005 and 2004 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 look 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 5.75% and 6.00% for 2005 and 2004, respectively.

Deferred Tax Assets — The recognition of deferred tax assets requires management to make judgments regarding the future realization of these assets. As prescribed by Statement of Financial Accounting Standards 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".

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 December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) replaces FASB Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" ("SFAS 123"), supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" ("SFAS 95"). Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Disclosure of the effect of expensing the fair value of equity compensation is currently required under existing literature. The statement also requires the tax benefit associated with these share based payments be classified as financing activities in the Statement of Cash Flows rather then operating activities as currently permitted. In April 2005, the SEC delayed the effective date of this statement until the beginning of the first annual reporting period that begins after June 15, 2005. The Company will begin recording compensation expense

utilizing the modified prospective application in its 2006 first quarter financial statements. Based solely on unvested awards at December 31, 2005, the Company projects 2006 compensation expense will be $0.2 million, net of tax.

In October 2004, President Bush signed the American Jobs Creation Act of 2004 ("the Act"). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. When fully phased-in, this deduction will be equal to 9 percent of the lesser of (a) "Qualified Production Activities Income ("QPAI")," as defined in the Act, or (b) taxable income (after utilization of any net operating loss carryforwards). In all cases, the deduction is limited to 50 percent of W-2 wages of the taxpayer. In return, the Act also provides for a two-year phase-out (except for certain pre-existing binding contracts) of the existing Extraterritorial Income Exclusion ("ETI") benefit for foreign sales that the World Trade Organization ("WTO") ruled was an illegal export subsidy.

In December 2004, FASB Staff Position ("FSP") No. FAS109-1, "Application of FASB Statement 109, Accounting for Income Taxes, to the Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004", was issued. FSP No. 109-1 clarifies that this tax deduction should be accounted for as a special deduction in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). As such, the special deduction had no effect on deferred tax assets and liabilities existing at the date of enactment. In addition, due to the utilization of net operating loss carryforwards, the deduction has no effect on 2005 taxes.

In March 2005, the FASB issued Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)," ("FIN 47"). This interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. Adoption of this interpretation did not affect the Company's consolidated financial statements. In connection with the completion of the refurbishment and the extension of the lease of the Grand Island, NE facility, sufficient information was available for the Company to estimate the fair value of a conditional asset retirement obligation associated with the leased property. During the fourth quarter of 2005, the Company recorded a liability, using the expected present value technique within the interpretation, for conditional asset retirement obligations of approximately $0.2 million.

Results of Operations

	Three Months Ended December 31,		Twelve Months Ended December 31,		
	2005	2004	2005	2004	2003
	Dollars in thousands				
Net Sales:					
Rail Products	$34,077	$28,822	$157,765	$144,504	$126,781
Construction Products	44,117	36,748	174,895	136,479	121,571
Tubular Products	4,635	4,159	20,824	16,883	15,914
Total Net Sales	$82,829	$69,729	$353,484	$297,866	$264,266
Gross Profit:					
Rail Products	$ 3,829	$ 3,218	$ 17,504	$ 15,660	$ 14,116
Construction Products	5,733	4,470	20,592	16,378	15,552
Tubular Products	745	855	4,264	3,416	3,728
Other	(696)	(2,571)	(2,367)	(4,843)	(1,664)
Total Gross Profit	9,611	5,972	39,993	30,611	31,732
Expenses:					
Selling and Administrative Expenses	8,033	7,429	31,069	27,877	26,936
Interest Expense	697	417	2,472	1,801	2,250
Other Income	(81)	(205)	(1,286)	(1,471)	(1,315)
Total Expenses	8,649	7,641	32,255	28,207	27,871
Income (Loss) from Continuing Operations, Before Income Taxes	962	(1,669)	7,738	2,404	3,861
Income Tax Expense (Benefit)	102	(625)	2,304	924	1,698
Income (Loss) From Continuing Operations	860	(1,044)	5,434	1,480	2,163
Income from Discontinued Operations, Net of Tax	—	—	—	—	1,277
Net Income (Loss)	$ 860	$(1,044)	$ 5,434	$ 1,480	$ 3,440
Gross Profit %:					
Rail Products	11.2%	11.2%	11.1%	10.8%	11.1%
Construction Products	13.0%	12.2%	11.8%	12.0%	12.8%
Tubular Products	16.1%	20.6%	20.5%	20.2%	23.4%
Total Gross Profit %	11.6%	8.6%	11.3%	10.3%	12.0%

Fourth Quarter of 2005 vs. Fourth Quarter of 2004

Net income was $0.9 million, or $0.08 per diluted share, for the fourth quarter of 2005 on net sales of $82.8 million. The fourth quarter of 2004 net loss was $1.0 million, or $0.10 per diluted share on net sales of $69.7 million. The 2005 results included a fourth quarter LIFO charge of $0.6 million compared to a $2.4 million LIFO charge in the 2004 fourth quarter.

Sales for the fourth quarter of 2005 increased in each of our three business segments and resulted in a 19% increase in total company sales over the same prior-year quarter. Rail products' net sales increased 18% due to increases in volume and pricing for most of our steel rail and rail accessories. Construction products' sales increased 20% in comparison to the fourth quarter of 2004. The increase was due primarily to a 40% increase in piling products sales, mostly sheet piling, due to an expanded product offering and a healthy construction market. Sales of tubular products were 11% higher than the prior-year quarter due to an increase

in coated pipe sales. Our Coated Pipe division benefited from new pipeline projects that were previously on hold because of high steel prices.

The 2005 fourth quarter gross margin percentage for the Company increased to 11.6% from 8.6% in the 2004 fourth quarter, primarily due to a $1.8 million reduction in LIFO expense and increased margins at standard. Rail products' gross margin percentage remained steady at 11.2%. Construction products' gross margin percentage improved to 13.0% from 12.2% in the year earlier period. During the fourth quarter of 2004, our Geotechnical and Fabricated Products divisions' margins were negatively impacted by high steel prices, and our Fabricated Products division's margins were still suffering from significantly reduced government spending for infrastructure projects, due to a delay in passing the new Federal highway and transit bill. Tubular products' gross margin percentage declined almost 22% as a result of unabsorbed plant expenses related to a reduction in threaded products volume.

Selling and administrative expense increased 8%, or $0.6 million, over the same prior year period, due to employee compensation and benefits costs. Interest expense increased $0.3 million from the prior year period due to increased interest rates and increased borrowings. The increase in borrowings was due primarily to working capital requirements, especially inventory, as well as higher than typical capital investments made in 2005. The income tax rate was 10.6% in the 2005 fourth quarter compared to 37.4% in the prior-year quarter. The low tax rate in 2005 is the result of adjustments related to the reconciliation of certain tax accounts and releasing a portion of the valuation allowance provided for certain state deferred assets.

The Year 2005 Compared to the Year 2004

For the year ended December 31, 2005, net income was $5.4 million, or $0.52 per diluted share on net sales of $353.5 million. This compares to net income of $1.5 million, or $0.14 per diluted share for 2004 on net sales of $297.9 million. The 2005 results included a $1.5 million LIFO charge as compared to a $3.5 million LIFO charge in the 2004 results.

Net sales for the year ended December 31, 2005 increased 19% from the prior year. Rail segment sales increased 9%, or $13.3 million from the prior year, primarily as a result of increased revenues from new rail projects and sales of relay rail. Construction segment sales increased 28%, or $38.4 million from the prior year due primarily to increases in sales of steel sheet piling, as previously mentioned in the fourth quarter comparison. Tubular segment sales increased 23%, or $3.9 million, over the prior year due to the new pipeline projects mentioned above.

The Company's 2005 gross margin percentage increased 1.0 percentage point to 11.3% compared to 10.3% in 2004. This improvement was due to decreased LIFO expense and a slight increase in gross margins at standard. Rail products' gross margin percentage increased slightly to 11.1% due to higher margins at standard for new rail projects. Construction products' gross margin percentage declined slightly to 11.8% from the year earlier period. The competitive environment which resulted from reduced government spending for infrastructure projects continues to have an unfavorable impact on the results of our Fabricated Products division while increased freight costs had a negative effect on our Concrete Buildings division's gross margin. Tubular products' gross margin percentage improved slightly to 20.5% as a result of improved standard margins for coated pipe products, and improved plant absorption due to the previously-mentioned increase in coated pipe volume.

Selling and administrative expenses increased 11% compared to the prior year due to employee compensation and benefit costs. Interest expense rose 37% in 2005 due to increased borrowings and increased interest rates. The 2005 income tax provision was 29.8% compared to 38.4% for 2004, primarily as a result of changes in the state tax valuation allowance. See Note 14, "Income Taxes".

The Year 2004 Compared to the Year 2003

For the year ended December 31, 2004, income from continuing operations was $1.5 million, or $0.14 per diluted share on net sales of $297.9 million. This compares to income from continuing operations of $2.2 million, or $0.22 per diluted share for 2003 on net sales of $264.3 million. Due to higher steel prices, the

2004 results included a $3.5 million LIFO charge, as compared to no LIFO charge in the 2003 results. Net income in 2004 was $1.5 million, or $0.14 per diluted share, compared to net income of $3.4 million, or $0.35 per diluted share in 2003. The 2003 results included income from discontinued operations of $1.3 million, or $0.13 per diluted share, related primarily to tax benefits realized from the dissolution of the Company's Foster Technologies subsidiary.

Net sales for the year ended December 31, 2004 increased almost 13% from the prior year. Sales related to each of the Company's segments improved over 2003; however, the largest improvements came from our Rail and Construction segments. Rail segment sales increased 14%, or almost $18.0 million from the prior year as a result of increased sales of new rail distribution products. Construction segment sales increased more than 12%, or almost $15.0 million from the prior year due primarily to increases in sales of H-bearing piling. Tubular segment sales increased approximately 6% over the prior year, primarily due to increases for threaded products.

The Company's 2004 gross margin percentage declined more than 14% from 2003. The decline was primarily attributable to the effects of escalating steel prices, which resulted in the previously mentioned LIFO charge. Rail products' gross margin percentage declined 2.7% which included the write-down of slow-moving inventory for trackwork and transit products. Construction products' gross margin percentage declined over 6% from the year earlier period, due principally to the decline in margins for fabricated bridge and highway products. The competitive environment which resulted from reduced government spending for infrastructure projects continued to have an unfavorable impact on the results of the Fabricated Products division. Tubular products' gross margin percentage declined almost 14% as reduced volumes of coated pipe products had a negative impact on results.

Selling and administrative expenses increased approximately 3% compared to the prior year as a result of increases in selling related expenses and employee benefit costs, as well as auditing and consulting fees associated with the implementation of Section 404 of the Sarbanes-Oxley Act. Interest expense declined 20% in 2004 as a result of the retirement of a $10.0 million LIBOR based interest rate collar agreement that had a minimum annual interest rate, and a reduction in average borrowing levels during 2004. Other (income) expense increased almost 12%, or $0.2 million from the prior year period primarily as a result of the 2004 sale of the Company's former Newport, KY pipe coating machinery and equipment which had been classified as "held for resale", offset by reduced mark-to-market income recorded by the Company related to derivative instruments. Approximately $1.0 million of dividend income on DM&E Preferred stock was included in other (income) expense in both 2004 and 2003. The 2004 income tax provision was 38.4% compared to 44% for 2003. The 2003 effective tax rate included the impact of additional income tax expense of approximately $0.3 million related to the increased valuation allowance placed on certain deferred tax assets previously recorded. This additional expense increased the 2003 effective tax rate by approximately 22%.

Liquidity and Capital Resources

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

	December 31,	
	2005	2004
	In millions	
Debt:		
Revolving Credit Facility	$ 20.8	$14.1
Capital Leases and Interim Lease Financing	13.4	1.1
Other (primarily revenue bonds)	2.7	2.8
Total Debt	36.9	18.0
Equity	80.0	73.7
Total Capitalization	$116.9	$91.7

Debt as a percentage of capitalization (debt plus equity) was 32% in 2005 compared to 20% in 2004, as a result of the increased activity levels related to our expansion efforts. Working Capital was $56.1 million in 2005 compared to $46.8 million in 2004. Inventory increased $26.9 million and accounts payable increased $15.1 million to accommodate orders and to increase piling inventory on hand.

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

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

	December 31,		
	2005	2004	2003
		In millions	
Liquidity needs:			
Working capital and other assets and liabilities	$(15.1)	$ (7.6)	$ 1.6
Capital expenditures, net of asset sales	(10.8)	(1.6)	(2.5)
Scheduled repayments of long-term debt	(0.7)	(0.6)	(0.9)
Cash interest	(2.2)	(1.6)	(2.1)
Net liquidity requirements	(28.8)	(11.4)	(3.9)
Liquidity sources:			
Internally generated cash flows before interest	13.8	9.1	9.8
Credit facility activity	6.7	(2.9)	(6.0)
Equity transactions	0.7	1.3	0.8
Other	8.9	—	(0.2)
Net liquidity sources	30.1	7.5	4.4
Net Change in Cash	$ 1.3	$ (3.9)	$ 0.5

Capital expenditures, net of asset sales in 2005 were $10.8 million compared to $1.6 million in 2004 and $2.5 million in 2003. The sharp increase in spending during 2005 was for the construction of a new concrete tie facility in Tucson, AZ, and the upgrade of another facility in Grand Island, NE to meet the requirements of a long-term contract with the Union Pacific Railroad. The amount of capital spending in 2006, including $6.0 million related to the new Tucson, AZ facility, is expected to be approximately $12.0 million and funded by cash flow from operations and available external financing sources. Spending in 2004 and 2003 represents maintenance capital plus a small amount of facilities improvement spending. The Company reviews its position and contemplates potential acquisitions and dispositions from time to time.

The Company has a five-year revolving credit facility agreement which expires in May 2010 and provides for up to $75.0 million in borrowings to support the Company's working capital and other liquidity requirements. Borrowings under the agreement are secured by substantially all the inventory and trade receivables owned by the Company, and are limited to 85% of eligible receivables and 60% of eligible inventory.

Borrowings under the credit facility bear interest at interest rates based upon either the base rate or LIBOR plus or minus applicable margins. The base rate is the greater of (a) PNC Bank's base commercial lending rate or (b) the Federal Funds Rate plus .50%. The base rate spread ranges from a negative 1.00% to a positive 0.50%, and the LIBOR spread ranges from 1.50% to 2.50%. The interest rates on the Company's initial borrowings were LIBOR plus 1.50% and the base rate minus 1.00%. Under the agreement, the Company maintains dominion over its cash at all times, as long as excess availability stays over $5.0 million and there is no uncured event of default.

Long-term revolving credit agreement borrowings at December 31, 2005 were $20.8 million, a $6.8 million increase from the end of the prior year. At December 31, 2005, remaining available borrowings under this facility were approximately $36.1 million. Outstanding letters of credit at December 31, 2005 were

approximately $2.9 million. The letters of credit expire annually and are subject to renewal. Management believes its internal and external sources of funds are adequate to meet anticipated needs.

The credit agreement includes financial covenants requiring a minimum net worth, a minimum level for the fixed charge coverage ratio and a maximum amount of annual consolidated capital expenditures; however, expenditures up to $20.0 million for plant construction and refurbishment related to the Company's concrete tie supply agreement will be excluded from these covenants. The agreement also restricts certain investments, other indebtedness, and the sale of certain assets. As of December 31, 2005, the Company was in compliance with all of the 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	$23,540	$ 91	$ 203	$20,945	$2,301
Short-term borrowings	5,881	5,881	—	—	—
Capital leases	7,495	1,668	3,063	2,687	77
Operating Leases	4,638	2,137	1,252	657	592
Purchase obligations not reflected in the financial statements	13,650	13,650	—	—	—
Total contractual cash obligations	$55,204	$23,427	$4,518	$24,289	$2,970
Other Financial Commitments					
Standby letters of credit	$ 2,938	$ 2,938	$ —	$ —	$ —

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

The Company maintains a significant investment in the Dakota, Minnesota & Eastern Railroad Corporation (DM&E), a privately held, regional railroad, which controls over 2,500 miles of track in eight states.

At December 31, 2005, 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 has a receivable, recorded within Investments on the Company's consolidated balance sheet, for accrued dividend income on Preferred Stock of approximately $6.7 million. The Company's ownership in the DM&E is approximately 13.4%.

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 are not paid timely, dividends accrue at an accelerated rate until those dividends are paid. In addition, penalty interest accrues and compounds annually until such dividends are paid. Subsequent issuances of Series C, C-1, and D Preferred Stock have all assumed distribution priority over the

previous series, with series D not redeemable until 2008. As subsequent preferred series were issued, the Company, based on its own valuation estimate, stopped recording 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 $5.2 million at December 31, 2005. The Company will only recognize this income upon redemption of the respective issuances or payment of the dividends.

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 ("the Project"). The estimated cost of this project is 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.

If the Project proves to be viable, management believes that the value of the Company's investment in the DM&E could increase significantly. If the Project does not come to fruition, management believes that the value of the Company's investment is supported by the DM&E's existing business.

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. 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 for a Federal Railroad Administration ("FRA") loan package totaling approximately $2.5 billion to build and rehabilitate approximately 1,300 miles of railroad in four states. The loan package is intended to fund four separate projects, including a 900-mile project which encompasses the Project.

Outlook

Our CXT Rail operation and Allegheny Rail Products division are dependent on a Class I railroad for a significant portion of their business. In January 2005, the CXT Rail operation was awarded a long-term contract from this Class I railroad for the supply of prestressed concrete railroad ties. The Class I railroad has agreed to purchase ties from the Grand Island facility through December 2010, and the Tucson, AZ facility through December 2012. See "2005 Developments" and "Recent Developments" for more details regarding the contract and these facilities.

In 2005, our primary supplier of sheet piling provided significantly larger amounts of sheet piling than in previous years, and also expanded the number of sections it provided. Although there are still some sections that remain unavailable and are necessary for us to compete effectively in the structural steel market, management's outlook is positive considering 2005 developments.

Although backlog is not necessarily indicative of future operating results, total Company backlog at December 31, 2005 was approximately $129.5 million. The following table provides the backlog by business segment:

	December 31,		
	2005	2004	2003
		In thousands	
Backlog:			
Rail Products	$ 56,567	$ 29,079	$ 37,529
Construction Products	71,374	67,736	67,100
Tubular Products	1,514	3,249	1,035
Total Backlog	$129,455	$100,064	$105,664

At December 31, 2005, 2004 and 2003 the Construction Products segment backlog included approximately $29.0 million, $28.0 million, and $29.0 million, respectively, related to the Company's Geotechnical division. In February 2006, assets related to this division were sold. See Note 21, "Subsequent Event" for details about the transaction.

We continue to evaluate the overall performance of our operations. A decision to 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 potential value of the DM&E or the Project, or management's belief as to such matters, are forward-looking statements and are subject to numerous contingencies and risk factors. The Company has based its assessment on information provided by the DM&E and has not independently verified such information. In addition to matters mentioned above, factors which can adversely affect the value of the DM&E and its ability to complete the Project include the following: labor disputes, the outcome of certain litigation, any inability to obtain necessary environmental and government approvals for the Project in a timely fashion, the DM&E's ability to continue to obtain interim funding to finance the Project, the expense of environmental mitigation measures required by the Surface Transportation Board, an inability to obtain financing for the Project, competitors' response to the Project, market demand for coal or electricity and changes in environmental laws and regulations.

An inability to produce a full complement of piling products by a Virginia steel mill could adversely impact the growth of the Piling division. Delays or problems encountered at our concrete tie facilities during construction or implementation could have a material, negative impact on the Company's operating results, including delays or problems obtaining permits. The Company's businesses could be affected adversely by significant change in the price of steel, concrete or other raw materials.

A substantial portion of the Company's operations is heavily dependent on governmental funding of infrastructure projects. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on the operating results of the Company. Additionally, government actions concerning taxation, tariffs, the environment, or other matters could impact the operating results of the Company. The Company's operating results may also be affected negatively by adverse weather conditions.

The Company cautions readers that various factors could cause the actual results of the Company to differ materially from those indicated by forward-looking statements 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 the future profitability, made from time to time by representatives of the Company. For a discussion of some of the specific risk factors, that may cause such differences, see Note 1 and Note 18 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 the Company's business, the adequacy of internal and external sources of funds to meet financing needs, 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 the third quarter of 2002, the Company discontinued cash flow hedge accounting treatment for its interest rate collars and has applied mark-to-market accounting prospectively. The Company has a LIBOR-based interest rate collar agreement, which became effective in March 2001 and expires in March 2006, with 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%. The fair value of this agreement was a liability as of December 31, 2005 and is recorded in "Other accrued liabilities".

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 Statement of Financial Accounting Standards 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 records the mark-to-market adjustments on these instruments in its consolidated statements of operations. During the fourth quarter of 2005 and 2004, the Company recognized $0.1 million of income and $0.2 million of income, respectively, to adjust these instruments to fair value. For the years ended December 31, 2005 and 2004, the Company recognized income of $0.4 million and $0.6 million, respectively, to adjust these instruments to fair value.

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. During the fourth quarter of 2004, circumstances indicated that the timing of the anticipated receipt of Canadian funds were not expected to 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.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The 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, 2005 and 2004, and the related consolidated statements of operations, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion in these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 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.

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, 2005, 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 3, 2006, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Ernst & Young LLP

Pittsburgh, Pennsylvania
March 3, 2006

REPORT OF INDEPENDENT REGISTERED ACCOUNTING

Board of Directors and Stockholders
L. B. Foster Company

We have audited management's assessment, included in Management's Report on Internal Control Over Financial Reporting and appearing in the accompanying Item 9A Controls and Procedures, that L. B. Foster Company maintained effective internal control over financial reporting as of December 31, 2005, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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 and understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and effectiveness of internal control, and performing such other procedures as we consider 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 acquisitions, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of 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 and procedures may deteriorate.

In our opinion, management's assessment that the L. B. Foster Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, L. B. Foster Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We 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, 2005 and 2004 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005 and our report dated March 3, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Ernst & Young LLP

Pittsburgh, Pennsylvania
March 3, 2006

L. B. FOSTER COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

	2005	2004
	In thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,596	$ 280
Accounts receivable — net	47,403	39,929
Inventories — net	68,949	42,014
Current deferred tax assets	1,779	1,289
Other current assets	703	786
Total Current Assets	120,430	84,298
PROPERTY, PLANT AND EQUIPMENT — NET	40,184	30,378
OTHER ASSETS:		
Goodwill and other intangibles — net	625	780
Investments	15,687	14,697
Deferred tax assets	1,183	3,877
Other assets	177	65
Total Other Assets	17,672	19,419
TOTAL ASSETS	$178,286	$134,095

	2005	2004
	In thousands, except share data	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 1,759	$ 477
Short-term borrowings	5,881	112
Accounts payable — trade	42,847	27,736
Accrued payroll and employee benefits	5,875	3,308
Current deferred tax liabilities	4,845	3,942
Other accrued liabilities	3,128	1,892
Total Current Liabilities	64,335	37,467
LONG-TERM DEBT	29,276	17,395
DEFERRED TAX LIABILITIES	1,615	2,898
OTHER LONG-TERM LIABILITIES	3,071	2,592
COMMITMENTS AND CONTINGENT LIABILITIES (Note 17)		
STOCKHOLDERS' EQUITY:		
Common stock, issued 10,228,739 shares in 2005 and 2004	102	102
Paid-in capital	35,598	35,131
Retained earnings	45,313	39,879
Treasury stock — at cost, Common stock, 38,994 shares in 2005 and 183,719 shares in 2004	(126)	(654)
Accumulated other comprehensive loss	(898)	(715)
Total Stockholders' Equity	79,989	73,743
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$178,286	$134,095

See Notes to Consolidated Financial Statements.

L. B. FOSTER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE YEARS ENDED DECEMBER 31, 2005

	2005	2004	2003
	In thousands, except per share data		
NET SALES	$353,484	$297,866	$264,266
COSTS AND EXPENSES:			
Cost of goods sold	313,491	267,255	232,534
Selling and administrative expenses	31,069	27,877	26,936
Interest expense — net of capitalized interest of $152 in 2005 and $- in 2004 and 2003	2,472	1,801	2,250
Other income	(1,286)	(1,471)	(1,315)
	345,746	295,462	260,405
INCOME FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES	7,738	2,404	3,861
INCOME TAX EXPENSE	2,304	924	1,698
INCOME FROM CONTINUING OPERATIONS	5,434	1,480	2,163
DISCONTINUED OPERATIONS (SEE NOTE 5):			
LOSS FROM DISCONTINUED OPERATIONS	—	—	(513)
INCOME TAX BENEFIT	—	—	(1,790)
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	—	—	1,277
NET INCOME	$ 5,434	$ 1,480	$ 3,440
BASIC EARNINGS PER COMMON SHARE:			
FROM CONTINUING OPERATIONS	$ 0.54	$ 0.15	$ 0.23
FROM DISCONTINUED OPERATIONS, NET OF TAX	—	—	0.13
BASIC EARNINGS PER COMMON SHARE	$ 0.54	$ 0.15	$ 0.36
DILUTED EARNINGS PER COMMON SHARE:			
FROM CONTINUING OPERATIONS	$ 0.52	$ 0.14	$ 0.22
FROM DISCONTINUED OPERATIONS, NET OF TAX	—	—	0.13
DILUTED EARNINGS PER COMMON SHARE	$ 0.52	$ 0.14	$ 0.35

See Notes to Consolidated Financial Statements.

L. B. FOSTER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE YEARS ENDED DECEMBER 31, 2005

	2005	2004	2003
		In thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	$ 5,434	$ 1,480	$ 2,163
Adjustments to reconcile net income to net cash (used) provided by operating activities:			
Deferred income taxes	1,318	924	171
Stock option tax benefit	257	441	164
Depreciation and amortization	5,270	5,276	5,208
(Gain) loss on sale of property, plant and equipment	(172)	(267)	506
Unrealized gain on derivative mark-to-market	(579)	(377)	(540)
Change in operating assets and liabilities:			
Accounts receivable	(7,474)	(5,156)	4,590
Inventories	(26,935)	(5,120)	(3,758)
Other current assets	83	91	(181)
Other noncurrent assets	(1,110)	(314)	(573)
Accounts payable — trade	15,111	3,862	(220)
Accrued payroll and employee benefits	2,567	399	496
Other current liabilities	2,255	124	1,974
Other liabilities	370	(1,403)	(704)
Net Cash (Used) Provided by Continuing Operations	(3,605)	(40)	9,296
Net Cash Used by Discontinued Operations	—	—	(197)
Net Cash (Used) Provided by Operating Activities	(3,605)	(40)	9,099
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of property, plant and equipment	4,541	981	56
Capital expenditures on property, plant and equipment	(15,309)	(2,617)	(2,593)
Net Cash Used by Investing Activities	(10,768)	(1,636)	(2,537)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds (repayments) of revolving credit agreement borrowings	6,736	(2,888)	(6,000)
Proceeds from other short-term borrowings	4,708	—	—
Exercise of stock options and stock awards	738	1,322	787
Proceeds (repayments) of long-term debt	3,507	(612)	(868)
Net Cash Provided (Used) by Financing Activities	15,689	(2,178)	(6,081)
Net Increase (Decrease) in Cash and Cash Equivalents	1,316	(3,854)	481
Cash and Cash Equivalents at Beginning of Year	280	4,134	3,653
Cash and Cash Equivalents at End of Year	$ 1,596	$ 280	$ 4,134
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest Paid	$ 2,190	$ 1,592	$ 2,087
Income Taxes Paid	$ 13	$ 196	$ 773

During 2005, 2004 and 2003, the Company financed certain capital expenditures totaling $3,981, $15 and $521, 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, 2005

	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, 2003	$102	$35,143	$35,208	$(3,629)	$(811)	$66,013
Net income			3,440			3,440
Other comprehensive income net of tax:						
Foreign currency translation adjustment					56	56
Minimum pension liability adjustment					28	28
Unrealized derivative gain on cash flow hedges					56	56
Comprehensive income						3,580
Issuance of 213,013 Common shares, net of forfeitures		(125)	(249)	1,325		951
Balance, December 31, 2003	102	35,018	38,399	(2,304)	(671)	70,544
Net income			1,480			1,480
Other comprehensive (loss) income net of tax:						
Minimum pension liability adjustment					(89)	(89)
Unrealized derivative gain on cash flow hedges					45	45
Comprehensive income						1,436
Issuance of 307,090 Common shares, net of forfeitures		113		1,650		1,763
Balance, December 31, 2004	102	35,131	39,879	(654)	(715)	73,743
Net income			5,434			5,434
Other comprehensive loss 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

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 equivalents

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

Inventories

Inventories are generally valued at the lower of the last-in, first-out (LIFO) cost or market. Approximately 32% in 2005 and 29% in 2004, 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 $152,000 in 2005. There was no capitalized interest in 2004 and 2003.

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 Statement of 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 2005, 2004 and 2003 and determined that goodwill was not impaired. The carrying amount of goodwill at December 31, 2005 and 2004 was $350,000 and was 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, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	In thousands			
Licensing agreements	$400	$(281)	$400	$(216)
Non-compete agreements	350	(280)	350	(210)
Patents	200	(114)	200	(94)
Total	$950	$(675)	$950	$(520)

Amortization expense for each year ended December 31, 2005, 2004 and 2003 was approximately $155,000. Future estimated amortization expense is as follows:

For the year ended December 31,	
2006	$155
2007	64
2008	19
2009	12
Thereafter	25

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. The Company recognizes revenue upon shipment of material from stock inventory or upon billing of material shipped directly to the customer from a Company vendor. Title 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, 2005, 2004 and 2003 amounted to $15,185,000, $11,565,000 and

$11,674,000, respectively. Revenues from 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 reasonable 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, and interest rate agreements.

The carrying amounts of the Company's financial instruments at December 31, 2005 and 2004 approximate fair value.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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

The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) and applies the intrinsic value method of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized.

The following table illustrates the effect on the Company's income from continuing operations and earnings per share had compensation expense for the Company's stock option plans been applied using the method required by SFAS 123.

	Year Ended December 31,		
	2005	**2004**	**2003**
	In thousands, except per share amounts		
Net income from continuing operations, as reported	$5,434	$1,480	$2,163
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	199	224	256
Pro forma income from continuing operations	$5,235	$1,256	$1,907
Earnings per share from continuing operations:			
Basic, as reported	$ 0.54	$ 0.15	$ 0.23
Basic, pro forma	$ 0.52	$ 0.13	$ 0.20
Diluted, as reported	$ 0.52	$ 0.14	$ 0.22
Diluted, pro forma	$ 0.49	$ 0.12	$ 0.20

Pro forma information regarding net income and earnings per share for options granted has been determined as if the Company had accounted for its employees stock options under the fair value method of Statement No. 123. The fair value of stock options used to compute pro forma net income and earnings per share disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2005, 2004 and 2003, respectively: risk-free interest rates of 4.18%, 4.25% and 3.56%; dividend yield of 0.0% for all three years; volatility factors of the expected market price of the Company's Common stock of .26, .28 and .32; and a weighted-average expected life of the option of ten years. The weighted average fair value of the options granted at December 31, 2005, 2004, and 2003 was $5.43, $3.91 and $2.11, respectively.

Derivative financial instruments and hedging activities

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. Effective September 26, 2002, in conjunction with the Company's debt refinancing, the Company discontinued cash flow hedge accounting treatment for its interest rate collars and has applied mark-to-market accounting prospectively. Adjustments in the fair value of these instruments are recorded as "Other (income) expense." The Company continued to apply cash flow hedge accounting to an interest rate swap agreement that expired on December 31, 2004.

At contract inception, the Company designates its derivative instruments as hedges. The Company recognizes all derivative instruments on the balance sheet at fair value. At December 31, 2005, the gross liabilities for derivative instruments were classified in "Other accrued liabilities". Fluctuations in the fair values of derivative instruments designated as cash flow hedges are recorded in accumulated other comprehensive income, and reclassified, as adjustments to interest expense, 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, circumstances indicated that the timing of the anticipated receipt of Canadian funds was not expected to coincide with the sale commitments and the Company recorded a $202,000 loss to record these commitments at market. The remaining Canadian dollar 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.

Reclassification

Certain items previously reported in specific financial statement captions have been reclassified to conform to the 2005 presentation. The reclassifications did not affect the net income or cash flows of the Company.

Asset retirement obligations

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)." This interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. Adoption of this interpretation did not affect the Company's consolidated financial statements. In connection with the completion of the refurbishment and the extension of the lease of the Grand Island, NE

facility, sufficient information was available for the Company to estimate the fair value of a conditional asset retirement obligation associated with the leased property. During the fourth quarter of 2005, the Company recorded a liability, using the expected present value technique within the interpretation, for conditional asset retirement obligations of approximately $212,000.

New accounting pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) replaces FASB Statement No. 123, "Accounting for Stock Based Compensation" ("SFAS 123"), supersedes Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," ("APB 25") and amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" ("SFAS 95"). Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Disclosure of the effect of expensing the fair value of equity compensation is currently required under existing literature. The statement also requires the tax benefit associated with these share based payments be classified as financing activities in the Statement of Cash Flows rather than operating activities as currently permitted. In April 2005, the Securities and Exchange Commission delayed the effective date of this statement until the beginning of the first annual reporting period that begins after June 15, 2005. The Company will begin recording compensation expense utilizing the modified prospective application in its 2006 first quarter financial statements. Based solely on unvested awards at December 31, 2005, the Company projects 2006 compensation expense will be $231,000 net of tax.

In October 2004, President Bush signed the American Jobs Creation Act of 2004 ("the Act"). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. When fully phased-in, this deduction will be equal to 9 percent of the lesser of (a) "Qualified Production Activities Income ("QPAI")," as defined in the Act, or (b) taxable income (after utilization of any net operating loss carryforwards). In all cases, the deduction is limited to 50 percent of W-2 wages of the taxpayer. In return, the Act also provides for a two-year phase-out (except for certain pre-existing binding contracts) of the existing Extraterritorial Income Exclusion ("ETI") benefit for foreign sales that the World Trade Organization ("WTO") ruled was an illegal export subsidy.

In December 2004, FASB Staff Position ("FSP") No. FAS109-1, "Application of FASB Statement 109, Accounting for Income Taxes, to the Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" ("FSP 109-1"), was issued. FSP 109-1 clarifies that this tax deduction should be accounted for as a special deduction in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). As such, the special deduction had no effect on deferred tax assets and liabilities existing at the date of enactment. In addition, due to the utilization of net operating loss carryforwards, the deduction has no effect on 2005 taxes.

Note 2.

Accounts Receivable

Accounts Receivable at December 31, 2005 and 2004 are summarized as follows:

	2005	2004
	In thousands	
Trade	$47,015	$40,778
Allowance for doubtful accounts	(966)	(1,019)
Other	1,354	170
	$47,403	$39,929

Bad debt (income) expense was $(26,000), $294,000 and $233,000 in 2005, 2004 and 2003, respectively.

The Company's customers are principally in the Rail, Construction and Tubular segments of the economy. As of December 31, 2005 and 2004, trade receivables, net of allowance for doubtful accounts, from customers in these markets were as follows:

	2005	2004
	In thousands	
Rail	$14,909	$16,343
Construction	29,096	21,794
Tubular	2,226	1,832
	$46,231	$39,969

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, 2005 and 2004 are summarized as follows:

	2005	2004
	In thousands	
Finished goods	$55,941	$27,929
Work-in-process	7,362	8,452
Raw materials	13,536	11,751
Total inventories at current costs	76,839	48,132
Less:		
Current cost over LIFO stated values	(6,227)	(4,702)
Inventory valuation reserve	(1,663)	(1,416)
	$68,949	$42,014

At December 31, 2005 and 2004, the LIFO carrying value of inventories for book purposes exceeded the LIFO value for tax purposes by approximately $9,257,000 and $12,390,000, respectively. During 2005 and 2004, liquidation of LIFO layers carried at costs that were lower than current purchases resulted in a decrease to cost of goods sold of $26,000 and $398,000, respectively. During 2003, inventory quantities were reduced resulting in a liquidation of certain LIFO inventory layers carried at costs which were higher than the costs of current purchases. The effect of these reductions in 2003 was to increase cost of goods sold by $379,000.

Note 4.

Property Held for Resale

In August 2003, the Company reached an agreement to sell, modify, and install the Company's former Newport, KY pipe coating machinery and equipment and reclassified these assets as "held for resale". During the first quarter of 2004, the Company recognized a $493,000 gain on net proceeds of $939,000 from the sale of these assets.

Note 5.

Discontinued Operations

In February 2003, substantially all of the assets of the Rail segment's rail signaling and communication device business were sold for $300,000. The operations of the rail signaling and communication device business qualified as a "component of an entity" under Statement of Financial Accounting Standards No 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and thus, the operations were classified as

discontinued and prior periods were restated. During the third quarter of 2003, the Company recognized a $1,594,000 income tax benefit from the release of a valuation allowance against foreign net operating losses that were utilized as a result of the dissolution of this subsidiary.

Net sales and results from discontinued operations were as follows:

	2005	2004	2003
	In thousands		
Net sales	$—	$—	$ 1
Pretax operating loss	$—	$—	$ (443)
Pretax loss on disposal	—	—	(70)
Income tax benefit	—	—	1,790
Income from discontinued operations	$—	$—	$1,277

Note 6.

Property, Plant and Equipment

Property, plant and equipment at December 31, 2005 and 2004 consists of the following:

	2005	2004
	In thousands	
Land	$ 4,850	$ 7,182
Improvements to land and leaseholds	7,071	7,455
Buildings	7,516	7,765
Machinery and equipment, including equipment under capitalized leases	55,435	47,824
Construction in progress	7,694	241
	82,566	70,467
Less accumulated depreciation and amortization, including accumulated amortization of capitalized leases	42,382	40,089
	$40,184	$30,378

Depreciation expense for the years ended December 31, 2005, 2004 and 2003 amounted to $5,115,000, $5,121,000 and $5,054,000, respectively.

Note 7.

Other Assets and Investments

The Company holds investments in the stock of the Dakota, Minnesota & Eastern Railroad Corporation ("DM&E"), which is recorded at its historical cost at December 31, 2005 and 2004 of $8,993,000. This investment is comprised of $193,000 of DM&E Common stock, $1,500,000 of DM&E Series B Preferred Stock and Common stock warrants, $6,000,000 in DM&E Series C Preferred Stock and Common stock warrants, $800,000 in DM&E Series C1 Preferred Stock and Common stock warrants, and $500,000 in DM&E Series D Preferred Stock and Common stock warrants. The Company accrued dividend income on these issuances of $990,000 in 2005, 2004 and 2003, respectively. The Company had a receivable for accrued dividend income, recorded within Investments on the Company's consolidated balance sheet, on these issuances of $6,694,000 and $5,704,000 in 2005, and 2004, respectively. The Company owns approximately 13.4% of the DM&E. During 2005, 2004 and 2003, the Company sold rail and piling products to the DM&E in the amount of $9,488,000, $12,188,000 and $1,341,000, respectively.

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 are not paid timely, dividends accrue at an accelerated rate until those dividends

are paid. In addition, penalty interest accrues and compounds annually until such dividends are paid. Subsequent issuances of Series C, C-1, and D Preferred Stock have all assumed distribution priority over the previous series, with series D not redeemable until 2008. As subsequent preferred series were issued, the Company, based on its own valuation estimate, stopped recording 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. At December 31, 2005 and 2004, the unrecorded dividends were approximately $5,223,000 and $3,782,000, respectively. The Company will only recognize this income upon redemption of the respective issuances or payment of the dividends.

Although the market value of the investments in DM&E stock are not readily determinable, management believes the fair value of this investment exceeds its carrying amount.

In 2002, the Company recognized an impairment loss of $6,943,000 on its investment in and advances to a specialty trackwork supplier. In the third quarter of 2003, the Company exchanged its ownership interest and advances to this supplier for a $5,500,000 promissory note from the supplier's owner, with principal and accrued interest to be repaid beginning in January 2008. The value of this note and the accrued interest was fully reserved and no gain or loss was recorded on this transaction. In 2004, it was determined that the note was not collectible and the note and related reserve were removed from the Company's accounts. The Company's proportionate share of the unaudited financial results for this investment was immaterial for the years ended December 31, 2004, 2003 and 2002.

Note 8.

Borrowings

On May 5, 2005, the Company entered into an amended and restated credit agreement with a syndicate of three banks led by PNC Bank, N.A. The agreement provides for a revolving credit facility of up to $60,000,000 in borrowings to support the Company's working capital and other liquidity requirements. In September 2005, the agreement was amended to increase the maximum credit line to $75,000,000. The revolving credit facility, which matures in May 2010, is secured by substantially all of the inventory and trade receivables owned by the Company. Availability under the agreement is limited by the amount of eligible inventory and accounts receivable, applied against certain advance rates. Borrowings under the credit facility bear interest at either the base rate or the LIBOR rate plus or minus an applicable spread based on the fixed charge coverage ratio. The base rate is 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 ranges from minus 1.00% to .50%, and the LIBOR spread ranges from 1.50% to 2.50%. At December 31, 2005 and 2004, $848,000 and $112,000, respectively, in base-rate loans were outstanding. Under the amended credit agreement, the Company maintains dominion over its cash at all times, as long as excess availability stays over $5,000,000 and there is no uncured event of default.

The agreement includes financial covenants requiring a minimum net worth, a minimum level for the fixed charge coverage ratio and a maximum level for the consolidated capital expenditures. The agreement also restricts investments, indebtedness, and sale of certain assets. As of December 31, 2005 the Company was in compliance with all the agreement's covenants.

At December 31, 2005, 2004 and 2003, the weighted average interest rate on borrowings under the agreement was 5.58%, 3.95% and 2.92%, respectively. At December 31, 2005 the Company had borrowed $20,848,000 under the agreement, which was classified as long-term (See Note 9). Under the agreement, the Company had approximately $36,149,000 in unused borrowing commitment at December 31, 2005.

The Company has interim financing arrangements with two banks to provide funding for the expansion of the Concrete Tie division. At December 31, 2005, approximately $5,881,000 of this funding is classified as short-term borrowings. The Company expects to convert the majority of this amount to long-term debt through the execution of capital leases.

Note 9.

Long-Term Debt and Related Matters

Long-term debt at December 31, 2005 and 2004 consists of the following:

	2005	2004
	In thousands	
Revolving credit agreement with weighted average interest rate of 5.58% at December 31, 2005 and 3.95% at December 31, 2004, expiring May 5, 2010	$20,848	$14,000
Lease obligations payable in installments through 2012 with a weighted average interest rate of 6.47% at December 31, 2005 and 6.54% at December 31, 2004	7,495	1,085
Massachusetts Industrial Revenue Bond with an interest rate of 2.55% at December 31, 2005 and 2.08% at December 31, 2004, payable March 1, 2013	2,045	2,045
Pennsylvania Economic Development Financing Authority Tax Exempt Pooled Bond payable in installments from 2006 through 2021 with an average interest rate of 2.56% at December 31, 2005 and 2.08% at December 31, 2004	375	400
Pennsylvania Department of Community and Economic Development Machinery and Equipment Loan Fund Payable in installments through 2009 with a fixed interest rate of 3.75%	272	342
	31,035	17,872
Less current maturities	1,759	477
	$29,276	$17,395

The $20,848,000 LIBOR rate revolving credit borrowings included in long-term debt were obtained under the revolving loan agreement discussed in Note 8 and are subject to the same terms and conditions.

The Massachusetts Industrial Revenue Bond is secured by a $2,085,000 standby letter of credit.

The Pennsylvania Economic Development Financing Authority Tax-Exempt Pooled Bond is secured by a $384,000 standby letter of credit.

The Company uses interest rate collars to manage interest rate exposure on variable rate debt. The Company had a LIBOR-based interest rate collar agreement, which became effective in March 2001 expiring in March 2006, with a notional value of $15,000,000, a maximum annual interest rate of 5.60% and a minimum annual interest rate of 5.00%. The counterparty to the collar agreement exercised the option, on March 6, 2005, to convert the $15,000,000 collar to a one-year, fixed-rate instrument with interest payable at an annual rate of 5.49%. The Company also had a LIBOR-based interest rate collar agreement, which became effective in April 2001 and would have expired in April 2006, with a notional value of $10,000,000, a maximum annual interest rate of 5.14%, and a minimum annual interest rate of 4.97%. The counter-party to the collar agreement had the option, on April 18, 2004, to convert the $10,000,000 collar to a two-year fixed-rate instrument with interest payable at an annual rate of 5.48%. In April 2004, prior to the counter-party option, the Company terminated this interest rate collar agreement by purchasing it for its fair value of $707,000. Other income for 2005, 2004 and 2003 includes $377,000, $579,000 and $540,000, respectively related to the mark-to-market accounting for these derivative instruments. The Company's current credit agreement, as discussed in Note 8, discontinued the hedging relationship of the Company's interest rate collars with the underlying debt instrument. Although these derivatives were not deemed to be an effective hedge of the credit facility, in accordance with the provisions of SFAS 133, the Company retained these instruments as protection against interest rate risk associated with the credit agreement and the Company will continue to record the mark-to-market adjustments on the interest rate collar, through March 2006, in its consolidated income statement.

The maturities of long-term debt for each of the succeeding five years subsequent to December 31, 2005 are as follows: 2006-$1,759,000; 2007-$1,586,000; 2008-$1,680,000; 2009-$1,387,000; 2010 and after-$24,623,000.

Note 10.

Stockholders' Equity

At December 31, 2005 and 2004, the Company had authorized shares of 20,000,000 in Common stock and 5,000,000 in Preferred stock. No Preferred stock has been issued. The Common stock has a par value of $.01 per share. No par value has been assigned to the Preferred stock.

No cash dividends on Common stock were paid in 2005, 2004 or 2003.

Note 11.

Accumulated Other Comprehensive Loss

The minimum pension liability adjustments of $(898,000) and $(715,000) are the components of accumulated other comprehensive loss, net of tax, for the years ended December 31, 2005 and 2004, respectively.

Note 12.

Stock Options

The Company has two stock option plans: The 1985 Long-Term Incentive Plan (1985 Plan) and the 1998 Long-Term Incentive Plan for Officers and Directors (1998 Plan). The 1985 Plan expired on January 1, 2005. Although no further awards can be made under the 1985 Plan, prior awards are not affected by the termination of the Plan.

The 1985 Plan, as amended and restated in March 1994, provided for the award of options to key employees and directors to purchase up to 1,500,000 shares of Common stock at no less than 100% of fair market value on the date of the grant. The 1985 Plan provided for the granting of "nonqualified options" and "incentive stock options" with a duration of not more than ten years from the date of grant. The Plan also provided that, unless otherwise set forth in the option agreement, options are exercisable in installments of up to 25% annually beginning one year from date of grant. Stock offered under the Plan was authorized from unissued Common stock or previously issued shares which have been reacquired by the Company and held as Treasury shares.

The 1998 Plan amended and restated in May 2001, provides for the award of options to key employees and directors to purchase up to 900,000 shares of Common stock at no less than 100% of fair market value on the date of the grant. The 1998 Plan provides for the granting of "nonqualified options" and "incentive stock options" with a duration of not more than ten years from the date of grant. The Plan also provides that, unless otherwise set forth in the option agreement, options are exercisable in installments of up to 25% annually beginning one year from date of grant. An outside director is automatically awarded fully vested, nonqualified stock options to acquire 5,000 shares of the Company's Common stock on each date the outside director is elected at an annual shareholders' meeting to serve as a director. Stock to be offered under the Plan may be authorized from unissued Common stock or previously issued shares which have been reacquired by the Company and held as Treasury shares.

At December 31, 2005, 2004 and 2003, Common stock options outstanding under the Plans had option prices ranging from $2.75 to $14.77, with a weighted average price of $5.01, $4.67 and $4.35 per share, respectively.

The weighted average remaining contractual life of the stock options outstanding for the three years ended December 31, 2005 are: 2005-5.3 years; 2004-5.9 years; and 2003-6.2 years.

Options exercised during 2005, 2004 and 2003 totaled 134,725, 297,090 and 201,160 shares, respectively. The weighted average exercise price per share of the options in 2005, 2004 and 2003 was $4.81, $4.18 and $3.66, respectively.

Certain information for the three years ended December 31, 2005 relative to employee stock options is summarized as follows:

	2005	2004	2003
Number of shares under Incentive Plan:			
Outstanding at beginning of year	1,134,675	1,360,715	1,535,500
Granted	55,000	78,800	45,000
Canceled	(12,500)	(7,750)	(18,625)
Exercised	(134,725)	(297,090)	(201,160)
Outstanding at end of year	1,042,450	1,134,675	1,360,715
Exercisable at end of year	907,975	897,625	1,026,715
Number of shares available for future grant:			
Beginning of year	85,125	156,175	182,550
End of year	42,125	85,125	156,175

Certain information for the year ended December 31, 2005 relative to employee stock options at respective exercise price ranges is summarized as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Life	Weighted Exercise Price	Shares Exercisable	Weighted Exercise Price
$2.75 - $ 3.94	267,750	5.1	$ 3.39	267,750	$3.39
$4.10 - $ 5.75	637,150	4.6	4.72	581,775	4.71
$6.00 - $ 8.97	81,750	8.1	7.95	53,250	7.92
$9.29 - $14.77	55,800	9.4	11.75	5,200	9.30
	1,042,450	5.3	$ 5.01	907,975	$4.54

Note 13.

Earnings Per Common Share

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

	Years Ended December 31,		
	2005	2004	2003
	In thousands, except per share amounts		
Numerator for basic and diluted earnings per common share-net income available to common stockholders:			
Income from continuing operations	$ 5,434	$ 1,480	$2,163
Income from discontinued operations	—	—	1,277
Net income	$ 5,434	$ 1,480	$3,440
Denominator:			
Weighted average shares	10,122	9,952	9,588
Denominator for basic earnings per common share	10,122	9,952	9,588
Effect of dilutive securities:			
Contingent issuable shares	—	—	1
Employee stock options	370	316	159
Dilutive potential common shares	370	316	160
Denominator for diluted earnings per common share-adjusted weighted average shares and assumed conversions	10,492	10,268	9,748
Basic earnings per share:			
Continuing operations	$ 0.54	$ 0.15	$ 0.23
Discontinued operations	—	—	0.13
Basic earnings per common share	$ 0.54	$ 0.15	$ 0.36
Diluted earnings per share:			
Continuing operations	$ 0.52	$ 0.14	$ 0.22
Discontinued operations	—	—	0.13
Diluted earnings per common share	$ 0.52	$ 0.14	$ 0.35

Weighted average shares issuable upon the exercise of stock options which were antidilutive and were not included in the calculation were 2,000, 1,000 and 324,000 in 2005, 2004 and 2003, respectively.

Note 14.

Income Taxes

At December 31, 2005 and 2004, the tax benefit of net operating loss carryforwards available for federal and state income tax purposes was approximately $1,737,000 and $5,114,000, respectively. During 2005, the valuation allowance related to these net operating loss carryforwards was adjusted from $1,673,000 to $1,266,000. The valuation allowance was decreased to reflect the ability of the Company to utilize state net operating loss carryforwards prior to their expiration. While certain state net operating losses expire in 2006, the majority of these net operating loss carryforwards begin to expire in the year 2014 and later. In 2003, the Company realized a capital loss on the disposal of its investment in a trackwork supplier. Due to the uncertainty of the Company's ability to generate capital gains to utilize this loss prior to expiration in 2008, the Company maintains a full valuation allowance related to this asset in the amount of $930,000. The valuation allowance in 2004 related to the capital loss was $939,000. It was adjusted to $930,000 to compensate for favorable state effective tax rate changes. In 2004, the Company recorded a valuation allowance of $114,000 to fully reserve the deferred tax asset related to state tax incentives that may not be realized prior to their expiration. In 2005, this valuation allowance was reduced to $53,000. This reduction is the result of the Company being able to utilize a

portion of the state tax incentive and a favorable change in the state effective income tax rate. The change in the net deferred tax asset reflects the change in the minimum pension liability which is recorded, net of tax, in accumulated other comprehensive loss. For the year ended December 31, 2004, the Company recognized a deferred tax benefit of $441,000 related to a deduction that the Company will receive related to the exercise of non-qualified stock options during the year. The Company recorded this benefit as an increase to additional paid-in-capital. This deferred tax benefit was utilized in 2005. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2005 and 2004 are as follows:

	2005	2004
	In thousands	
Deferred tax liabilities:		
Depreciation	$ 1,615	$ 2,898
Inventories	4,844	3,942
Total deferred tax liabilities	6,459	6,840
Deferred tax assets:		
Accounts receivable	731	399
Charitable contribution carryforwards	127	178
Net operating loss carryforwards	1,737	5,114
Minimum pension liability	380	446
Loss on investment	930	939
Goodwill	543	431
Other-net	789	385
Total deferred tax assets	5,237	7,892
Valuation allowance for deferred tax assets	2,276	2,726
Deferred tax assets	2,961	5,166
Net deferred tax liability	$(3,498)	$(1,674)

Significant components of the provision for income taxes are as follows:

	2005	2004	2003
		In thousands	
Current:			
Federal	$ 914	$ —	$1,511
State	72	—	16
Total current	986	—	1,527
Deferred:			
Federal	1,523	643	104
State	(205)	281	67
Total deferred	1,318	924	171
Total income tax expense	$2,304	$924	$1,698

The reconciliation of income tax computed at statutory rates to income tax expense (benefit) is as follows:

	2005	2004	2003
Statutory rate	34.0%	34.0%	34.0%
State income tax	3.7	(1.0)	2.1
Nondeductible expenses	(1.8)	(8.0)	(5.2)
Valuation allowance	(6.2)	12.7	14.8
Other	0.1	0.7	(1.7)
	29.8%	38.4%	44.0%

Note 15.

Rental and Lease Information

The Company has capital and operating leases for certain plant facilities, office facilities, and equipment. Rental expense for the years ended December 31, 2005, 2004, and 2003 amounted to $3,502,000, $3,806,000 and $3,783,000, respectively. Generally, land and building leases include escalation clauses.

On December 28, 2005, the Company entered into a $1,281,000 sale-leaseback transaction whereby the Company sold and leased back certain assets of the Grand Island, NE facility. The resulting lease is being accounted for as an operating lease. There was a gain of $23,000 recorded on the sale. The lease base term is six years, with an early buy-out option after five years and a purchase option at the end of the base term. The interest rate for this transaction is 5.88%.

The following is a schedule, by year, of the future minimum payments under capital and operating leases, together with the present value of the net minimum payments as of December 31, 2005:

	Capital Leases	Operating Leases
	In thousands	
Year ending December 31,		
2006	$2,104	$2,137
2007	1,822	820
2008	1,813	432
2009	1,457	354
2010 and thereafter	1,509	895
Total minimum lease payments	8,705	$4,638
Less amount representing interest	1,210	
Total present value of minimum payments	7,495	
Less current portion of such obligations	1,668	
Long-term obligations with interest rates ranging from 5.19% to 8.55%	$5,827	

Assets recorded under capital leases are as follows:

	2005	2004
	In thousands	
Machinery and equipment at cost	$1,231	$1,236
Buildings	399	399
Land	219	219
	1,849	1,854
Less accumulated amortization	606	377
Net capital lease assets	$1,243	$1,477

Note 16.

Retirement Plans

Currently there are five qualified retirement plans covering all hourly and salaried employees, specifically two defined benefit plans and three defined contribution plans. Employees are eligible to participate under these specific plans based on their employment classification of salary or hourly status. The Company's funding to the defined benefit and defined contribution plans is governed by the Employee Retirement Income Security Act of 1974, applicable plan policy and investment guidelines. The Company policy is to contribute no less than the minimum funding required by ERISA.

Defined Benefit Plans

The following tables present a reconciliation of the changes in the benefit obligation, the fair market value of the assets and the funded status of the plans, with the accrued pension cost in other long-term liabilities in the Company's balance sheets:

	2005	2004
	In thousands	
Changes in benefit obligation:		
Benefit obligation at beginning of year	$3,573	$3,309
Service cost	58	56
Interest cost	210	203
Actuarial losses	139	126
Benefits paid	(136)	(121)
Benefit obligation at end of year	$3,844	$3,573
Change to plan assets:		
Fair value of assets at beginning of year	$2,602	$2,157
Actual gain on plan assets	173	206
Employer contribution	291	360
Benefits paid	(136)	(121)
Fair value of assets at end of year	$2,930	$2,602
Funded status	$ (914)	$ (971)
Unrecognized actuarial loss	1,294	1,186
Unrecognized net transition asset	(16)	(26)
Unrecognized prior service cost	27	36
Accrued benefit cost	$ 391	$ 225
Amounts recognized in the statement of financial position consist of:		
Accrued benefit liability	$ (914)	$ (971)
Intangible asset	27	36
Accumulated other comprehensive loss	1,278	1,160
Net amount recognized	$ 391	$ 225

Net periodic pension costs for the three years ended December 31, 2005 are as follows:

	2005	2004	2003
		In thousands	
Components of net periodic benefit cost:			
Service cost	$ 58	$ 56	$ 59
Interest cost	210	203	196
Actual gain on plan assets	(173)	(206)	(288)
Amortization of prior service cost	9	9	8
Recognized net actuarial gain	21	81	206
Net periodic benefit cost	$ 125	$ 143	$ 181

Assumptions used to measure the projected benefit obligation and develop net periodic pension costs for the three years ended December 31, 2005 were:

	2005	2004	2003
Assumed discount rate	5.75%	6.00%	6.25%
Expected rate of return on plan assets	7.75%	7.75%	7.75%

The expected long-term rate of return is based on numerous factors including the target asset allocation for plan assets, historical rate of return, long-term inflation assumptions, and current and projected market conditions.

Amounts applicable to the Company's pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	2005	2004	2003
		In thousands	
Projected benefit obligation	$3,844	$3,573	$3,309
Accumulated benefit obligation	3,844	3,573	3,309
Fair value of plan assets	2,930	2,602	2,157

The hourly plan assets consist primarily of various fixed income and equity investments. The Company's primary investment objective is to provide long-term growth of capital while accepting a moderate level of risk. The investments are limited to cash and equivalents, bonds, preferred stocks and common stocks. The investment target ranges and actual allocation of pension plan assets by major category at December 31, 2005, and 2004, are as follows:

	Target	2005	2004
Asset Category:			
Cash and cash equivalents	0-10%	8%	11%
Fixed income funds	30-50%	32	26
Equities	50-70%	60	63
Total		100%	100%

The Company expects to contribute $121,000 to its defined benefit plans in 2006.

The following benefit payments are expected to be paid:

	Pension Benefits
	In thousands
2006	$140
2007	141
2008	145
2009	150
2010	154
Years 2011-2015	946

Defined Contribution Plans

The Company's defined contribution plan for salaried employees contains a matched savings provision that permits both pretax and after-tax employee contributions. Participants can contribute up to 41% of their annual compensation and receive a matching employer contribution up to 3% of their annual compensation.

The plan also requires an additional matching employer contribution, based on the ratio of the Company's pretax income to equity, up to 3% of the employee's annual compensation. Additionally, the Company contributes 1% of all salaried employees' annual compensation to the plan without regard for employee

contribution. The Company may also make discretionary contributions to the plan. The expense associated with this plan was $1,042,000 in 2005, $684,000 in 2004, and $691,000 in 2003.

The Company also has two defined contribution plans for hourly employees with contributions made by both the participants and the Company based on various formulas. The expense associated with these plans was $60,000 in 2005, $62,000 in 2004, and $61,000 in 2003.

Note 17.

Commitments and Contingent Liabilities

The Company is subject to laws and regulations relating to the protection of the environment, and the Company's efforts to comply with environmental regulations may have an adverse effect on its future earnings. In the opinion of management, compliance with the present environmental protection laws will not have a material adverse effect on the financial condition, results of operations, cash flows, competitive position, or capital expenditures of the Company.

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial condition or liquidity of the Company. The resolution, in any reporting period, of one or more of these matters, could have, however; a material effect on the Company's results of operations for that period.

In 2000, the Company's subsidiary sold concrete railroad crossing panels to a general contractor on a Texas transit project. Due to a variety of factors, including deficiencies in the owner's project specifications, certain panels have deteriorated and the owner either has replaced or is in the process of replacing these panels. The general contractor and the owner are currently engaged in dispute resolution procedures, which we believe will be resolved in 2006. The general contractor has notified the Company that, depending on the outcome of these proceedings, it may file a suit against the Company's subsidiary. 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.

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.

The Trustees of the Colorado Contractors Trust (the "Trust") filed suit on November 3, 2005 in the District Court, County of Denver, CO against the Company, its bonding company, the general contractor, and the general contractor's bonding companies. The Trust is a multiple employer employee benefit plan. The Trust alleges that a supplier, which the Company used in connection with a project in the Denver, CO area, failed to pay the Trust required contributions for employee health coverage. The Trust alleges that the Company is liable as an "alter ego" of its supplier. In addition, the Company may have indemnification obligations with respect to similar claims against the general contractor and its bonding companies. Although the amount of the Trust's claim is unclear, the Trust apparently seeks more than $300,000, plus interest and attorneys' fees. The Company intends to vigorously defend itself against the Trust's claims.

Note 18.

Risks and Uncertainties

The Company's future operating results may be affected by a number of factors. Deteriorating market conditions could have a material adverse impact on any of the Company's operating segments. The Company is dependent upon a number of major suppliers. If a supplier had operational problems or ceased making material available to the Company, operations could be adversely affected.

The Company's CXT Rail operation and Allegheny Rail Products division are dependent on a Class I railroad for a significant portion of their business. The CXT Rail operation was awarded a long-term contract, from this Class I railroad, for the supply of prestressed concrete railroad ties. CXT expanded and modernized its Grand Island, NE plant in 2005, and will complete construction of a new facility in Tucson, AZ during 2006 to accommodate the contract's requirements. The Class I railroad has agreed to purchase minimum annual quantities from the Grand Island, NE facility through December 2010, and the Tucson, AZ facility through December 2012. Delays or problems encountered at these facilities during construction or implementation could have a material, negative impact on the Company's operating results.

Steel is a key component in the products that we sell. A sudden fall in steel prices could have a negative impact on our results, especially in our Piling division which has been increasing inventory levels.

In the second half of 2004, our primary supplier of sheet piling improved its capability to provide a significantly larger amount of sheet piling than in previous years. This supplier also increased the number of sections it provides to us, although there are still sections that remain unavailable. While management's outlook is positive considering the developments in 2004 and 2005, additional sections are important for us to compete effectively in the structural steel market.

A substantial portion of the Company's operations is heavily dependent on governmental funding of infrastructure projects. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on the operating results of the Company. Certain of our businesses, especially our Fabricated Products group, have been hampered with low volumes and margins due to the lack of successor legislation to TEA-21, which was a highway and transportation funding bill that expired in September 2003. On August 10, 2005, new legislation was enacted (SAFETEA-LU) authorizing $286 billion for United States transportation improvement spending. We do not expect this new legislation to have a positive impact on the financial results of these businesses in 2006.

Governmental actions concerning taxation, tariffs, the environment or other matters could impact the operating results of the Company. The Company's operating results may also be affected by adverse weather conditions.

Note 19.

Business Segments

L.B. Foster Company is organized and evaluated by product group, which is the basis for identifying reportable segments.

The Company is engaged in the manufacture, fabrication and distribution of rail, construction and tubular products.

The Company's Rail segment provides a full line of new and used rail, trackwork and accessories to railroads, mines and industry. The Rail segment 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.

The Company's Construction segment sells and rents steel sheet piling, H-bearing pile, and other piling products for foundation and earth retention requirements. In addition, the Company's Fabricated Products division sells bridge decking, heavy steel fabrications, expansion joints and other products for highway construction and repair. The Geotechnical division designs and supplies mechanically-stabilized earth wall systems while the Buildings division produces precast concrete buildings.

The Company's Tubular segment supplies pipe coatings for pipelines and utilities. Additionally, this segment produces pipe-related products for special markets, including water wells and irrigation.

The Company markets its products directly in all major industrial areas of the United States, primarily through a national sales force.

The following table illustrates net sales, profits, assets, depreciation/amortization and expenditures for long-lived assets of the Company by segment. Segment profit is the earnings before income taxes and includes internal cost of capital charges for assets used in the segment at a rate of, generally, 1% per month. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that the Company accounts for inventory on a First-In, First-Out (FIFO) basis at the segment level compared to a Last-In, First-Out (LIFO) basis at the consolidated level.

	2005				
	Net Sales	Segment Profit	Segment Assets	Depreciation/ Amortization	Expenditures for Long-Lived Assets
	In thousands				
Rail Products	$157,765	$4,495	$ 66,400	$2,538	$14,181
Construction Products	174,895	2,941	80,602	1,979	1,296
Tubular Products	20,824	2,413	9,824	409	671
Total	$353,484	$9,849	$156,826	$4,926	$16,148

	2004				
	Net Sales	Segment Profit	Segment Assets	Depreciation/ Amortization	Expenditures for Long-Lived Assets
	In thousands				
Rail Products	$144,504	$3,413	$ 47,992	$2,671	$ 409
Construction Products	136,479	986	55,227	1,831	1,859
Tubular Products	16,883	1,705	6,614	365	60
Total	$297,866	$6,104	$109,833	$4,867	$2,328

	2003				
	Net Sales	Segment Profit	Segment Assets	Depreciation/ Amortization	Expenditures for Long-Lived Assets
	In thousands				
Rail Products	$126,781	$1,844	$43,341	$2,489	$ 550
Construction Products	121,571	1,466	49,093	1,850	1,683
Tubular Products	15,914	1,999	7,199	309	460
Total	$264,266	$5,309	$99,633	$4,648	$2,693

During 2005 and 2003, no single customer accounted for more than 10% of the Company's consolidated net sales. In 2004, one customer accounted for 10.4% of consolidated net sales. Sales to this customer were recorded in the Rail and Construction segments. Sales between segments are immaterial.

Reconciliations of reportable segment net sales, profits, assets, depreciation/amortization, and expenditures for long-lived assets to the Company's consolidated totals are illustrated as follows:

	2005	2004	2003
		In thousands	
Net Sales from Continuing Operations:			
Total for reportable segments	$353,484	$297,866	$264,266
Other net sales	—	—	—
Total	$353,484	$297,866	$264,266
Income from Continuing Operations:			
Total for reportable segments	$ 9,849	$ 6,104	$ 5,309
Adjustment of inventory to LIFO	(1,525)	(3,468)	15
Unallocated other income	1,286	1,471	1,315
Other unallocated amounts	(1,872)	(1,703)	(2,778)
Income from continuing operations before income taxes	$ 7,738	$ 2,404	$ 3,861
Assets:			
Total for reportable segments	$156,826	$109,833	$ 99,633
Unallocated corporate assets	20,316	21,870	25,156
LIFO and corporate inventory reserves	(6,427)	(5,302)	(1,834)
Unallocated property, plant and equipment	7,571	7,694	8,204
Total assets	$178,286	$134,095	$131,159
Depreciation/Amortization:			
Total reportable for segments	$ 4,926	$ 4,867	$ 4,648
Other	344	409	560
Total	$ 5,270	$ 5,276	$ 5,208
Expenditures for Long-Lived Assets:			
Total for reportable segments	$ 16,148	$ 2,328	$ 2,693
Expenditures financed under capital leases	(1,200)	(15)	(521)
Other expenditures	361	304	421
Total	$ 15,309	$ 2,617	$ 2,593

Approximately 93% of the Company's total net sales during 2005 were to customers in the United States, and a majority of the remaining sales were to other North American countries.

At December 31, 2005, all of the Company's long-lived assets were located in the United States.

Note 20.

Quarterly Financial Information (Unaudited)

Quarterly financial information for the years ended December 31, 2005 and 2004 is presented below:

	2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	In thousands except per share amounts				
Net sales	$75,314	$97,808	$97,533	$82,829	$353,484
Gross profit	$ 8,000	$10,760	$11,622	$ 9,611	$ 39,993
Net income	$ 628	$ 1,598	$ 2,348	$ 860	$ 5,434
Basic earnings per common share	$ 0.06	$ 0.16	$ 0.23	$ 0.08	$ 0.54
Diluted earnings per common share	$ 0.06	$ 0.15	$ 0.22	$ 0.08	$ 0.52

	2004				
	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter	Total
	In thousands except per share amounts				
Net sales	$65,452	$76,827	$85,858	$69,729	$297,866
Gross profit	$ 5,982	$ 9,333	$ 9,324	$ 5,972	$ 30,611
Net (loss) income	$ (113)	$ 1,295	$ 1,342	$(1,044)	$ 1,480
Basic (loss) earnings per common share	$ (0.01)	$ 0.13	$ 0.13	$ (0.10)	$ 0.15
Diluted (loss) earnings per common share	$ (0.01)	$ 0.13	$ 0.13	$ (0.10)	$ 0.14

(1) 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".

Note 21.

Subsequent Event

In February 2006, the Company sold substantially all of the assets of its Geotechnical Division (the "Business") for $4,000,000 plus the net asset value of the fixed assets, inventory, work in progress and prepaid items of the Business.

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None.

ITEM 9A. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, L. B. Foster Company (the Company) carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a — 15(e) under the Securities and Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There were no significant changes in internal control over financial reporting (as defined in Rule 13a-15f under the Exchange Act) that occurred during the fourth quarter of 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Managements' Report on Internal Control Over Financial Reporting

The management of L. B. Foster Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a — 15(f). L. B. Foster Company's internal control system is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Accordingly, even effective controls can provide only reasonable assurance with respect to financial statement preparation and presentation.

L. B. Foster Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, the independent registered public accounting firm that also audited the Company's consolidated financial statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting appears in Part II, Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 9B. *OTHER INFORMATION*

None.

PART III

ITEM 10. *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

Pursuant to instruction G(3) to Form 10-K, the information required by Item 10 with respect to the Directors of the Company set forth under the heading "Election of Directors" in the Company's definitive proxy statement to be filed within 120 days following the end of the fiscal year covered by this report is incorporated herein by reference.

The information required by Item 10 with respect to the Executive Officers of the Company has been included in Part I of this Form 10-K (as Item 4A) in reliance on Instruction G(3) of Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

Pursuant to instruction G(3) to Form 10-K, information concerning the independence of our Audit Committee and audit committee financial expert disclosure set forth under the heading "Board and Committee Meetings" in the Company's definitive proxy statement to be filed within 120 days following the end of the fiscal year covered by this report is incorporated herein by reference.

Pursuant to instruction G(3) to Form 10-K, the information concerning compliance with Section 16(a) of the Securities Act of 1933 by officers and directors of the Company set forth under the heading entitled "Beneficial Reporting Compliance" in the Company's definitive proxy statement to be filed within 120 days following the end of the fiscal year covered by this report is incorporated herein by reference.

Information regarding our Code of Ethics set forth under the caption "Code of Ethics" in Item 4A of Part I of this Form 10-K is incorporated herein by reference.

ITEM 11. *EXECUTIVE COMPENSATION*

The information set forth under "Executive Compensation" in the 2006 Proxy Statement is incorporated herein by reference.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*

The information set forth under "Stock Ownership" in the 2006 Proxy Statement is incorporated herein by reference.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

None.

ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES*

The information set forth under "Independent Auditors" in the 2006 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES*

The following documents are filed as a part of this Report:

1. *Financial Statements*

   The following Reports of Independent Registered Public Accounting Firm, consolidated financial statements, and accompanying notes are included in Item 8 of this Report:

   Reports of Independent Registered Public Accounting Firm.

   Consolidated Balance Sheets as of December 31, 2005 and 2004.

   Consolidated Statements of Operations for the Years Ended December 31, 2005, 2004 and 2003.

   Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004, and 2003.

   Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2005, 2004 and 2003.

   Notes to Consolidated Financial Statements.

Financial Statement Schedule

Schedules for the Three Years Ended December 31, 2005, 2004 and 2003:

II — Valuation and Qualifying Accounts.

The remaining schedules are omitted because of the absence of conditions upon which they are required.

L. B. FOSTER COMPANY AND SUBSIDIARIES

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

		Additions			
	Balance at Beginning of Year	Charged to Costs and Expenses	Other	Deductions	Balance at End of Year
			(In thousands)		
2005					
Deducted from assets to which they apply:					
Allowance for doubtful accounts	$1,019	$ 26	$ —	$ 79(1)	$ 966
Inventory valuation reserve	$1,416	$921	$ —	$674(2)	$1,663
Not deducted from assets:					
Provision for special termination benefits	$ 98	$ 14	$ —	$ 69(3)	$ 43
Provision for environmental compliance & remediation	$ 365	$326	$ —	$ 62(4)	$ 629
2004					
Deducted from assets to which they apply:					
Allowance for doubtful accounts	$ 827	$294	$ —	$102(1)	$1,019
Inventory valuation reserve	$1,387	$998	$ —	$969(2)	$1,416
Not deducted from assets:					
Provision for special termination benefits	$ 163	$ 10	$ —	$ 75(3)	$ 98
Provision for environmental compliance & remediation	$ 325	$ 63	$ —	$ 23(4)	$ 365
2003					
Deducted from assets to which they apply:					
Allowance for doubtful accounts	$1,062	$233	$ —	$468(1)	$ 827
Inventory valuation reserve	$1,228	$505	$ —	$346(2)	$1,387
Not deducted from assets:					
Provision for special termination benefits	$ 229	$ 14	$ —	$ 80(3)	$ 163
Provision for environmental compliance & remediation	$ 325	$ 52	$ —	$ 52(4)	$ 325

(1) *Notes and accounts receivable written off as uncollectible.*

(2) *Reductions of inventory valuation reserve result from physical inventory shrinkage and write-down of slow-moving inventory to the lower of cost or market.*

(3) *Reduction of special termination provisions result from payments to severed employees and to revisions to severance obligations.*

(4) *Payments made on amounts accrued and reversals of accruals.*

3. *Exhibits*

The Exhibits marked with an asterisk are filed herewith. All exhibits are incorporated herein by reference:

3.1	Restated Certificate of Incorporation, filed as Exhibit 3.1 to Form 10-Q for the quarter ended March 31, 2003.
3.2	Bylaws of the Registrant, as amended and filed as Exhibit 3.2 to Form 10-K for the year ended December 31, 2002.
4.0	Rights Amendment, dated as of May 15, 1997 between L. B. Foster Company and American Stock Transfer & Trust Company, including the form of Rights Certificate and the Summary of Rights attached thereto, filed as Exhibit 4.0 to Form 10-K for the year ended December 31, 2002.
10.0	Amended and Restated Revolving Credit Agreement dated May 5, 2005, between Registrant and PNC Bank, N.A., LaSalle Bank N.A., and First Commonwealth Bank, filed as Exhibit 10.0 to Form 10-Q for the quarter ended March 31, 2005.
10.0.1	First Amendment to Revolving Credit and Security Agreement dated September 13, 2005, between Registrant and PNC Bank, N.A., LaSalle Bank N.A., and First Commonwealth Bank, filed as Exhibit 10.0.1 to Form 8-K on September 14, 2005.
10.12	Lease between CXT Incorporated and Pentzer Development Corporation, dated April 1, 1993, filed as Exhibit 10.12 to Form 10-K for the year ended December 31, 2004.
10.12.1	Second Amendment dated March 12, 1996 to lease between CXT Incorporated and Crown West Realty, LLC, successor, filed as Exhibit 10.12.1 to Form 10-K for the year ended December 31, 2004.
10.12.2	Third Amendment dated November 7, 2002 to lease between CXT Incorporated and Crown West Realty, LLC, filed as Exhibit 10.12.2 to Form 10-K for the year ended December 31, 2002.
10.12.3	Fourth Amendment dated December 15, 2003 to lease between CXT Incorporated and Crown West Realty, LLC, filed as Exhibit 10.12.3 to Form 10-K for the year ended December 31, 2003.
10.12.4	Fifth Amendment dated June 29, 2004 to lease between CXT Incorporated and Park SPE, LLC, filed as Exhibit 10.12.4 to Form 10-K for the year ended December 31, 2004.
10.13	Lease between CXT Incorporated and Crown West Realty, LLC, dated December 20, 1996, filed as Exhibit 10.13 to Form 10-K for the year ended December 31, 2004.
10.13.1	Amendment dated June 29, 2001 between CXT Incorporated and Crown West Realty, filed as Exhibit 10.13.1 to Form 10-K for the year ended December 31, 2002.
10.14	Lease of property in Tucson, AZ between CXT Incorporated and the Union Pacific Railroad Company dated May 27, 2005, filed as Exhibit 10.14 to Form 10-Q for the quarter ended June 30, 2005.
10.15	Lease of property in Grand Island, NE between CXT Incorporated and the Union Pacific Railroad Company, dated May 27, 2005, and filed as Exhibit 10.15 to Form 10-Q for the quarter ended June 30, 2005.
10.15.1	Industry Tract Contract between CXT Incorporated and the Union Pacific Railroad Company, dated May 27, 2005, filed as Exhibit 10.15 to Form 10-Q for the quarter ended June 30, 2005.
10.17	Lease between Registrant and the City of Hillsboro, TX dated February 22, 2002, and filed as Exhibit 10.17 to Form 10-K for the year ended December 31, 2002.
10.19	Lease between Registrant and American Cast Iron Pipe Company for pipe-coating facility in Birmingham, AL, dated December 11, 1991, filed as Exhibit 10.19 to Form 10-K for the year ended December 31, 2002.
10.19.1	Amendment to Lease between Registrant and American Cast Iron Pipe Company for pipe-coating facility in Birmingham, AL dated November 15, 2000, and filed as Exhibit 10.19.2 to Form 10-K for the year ended December 31, 2000.
10.20	Equipment Purchase and Service Agreement by and between the Registrant and LaBarge Coating LLC, dated July 31, 2003, and filed as Exhibit 10.20 to Form 10-Q for the quarter ended September 30, 2003.

ˆ10.21	Agreement for Purchase and Sales of Concrete Ties between CXT Incorporated and the Union Pacific Railroad dated January 24, 2005, and filed as Exhibit 10.21 to Form 10-K for the year ended December 31, 2004.
ˆ10.21.1	Amendment to Agreement for Purchase and Sales of Concrete Ties between CXT Incorporated and the Union Pacific Railroad dated October 28, 2005, and filed as Exhibit 10.21.1 to Form 8-K on November 14, 2005.
10.22	Manufacturing Agreement between CXT Incorporated and Grimbergen Engineering & Projects, B.V. dated January 24, 2005, and filed as Exhibit 10.22 to Form 10-K for the year ended December 31, 2004.
*10.24	Asset Purchase Agreement by and between the Registrant and The Reinforced Earth Company dated February 15, 2006.
10.33.2	Amended and Restated 1985 Long-Term Incentive Plan as of May 25, 2005, filed as Exhibit 10.33.2 to Form 10-Q for the quarter ended June 30, 2005.**
10.34	Amended and Restated 1998 Long-Term Incentive Plan as of May 25, 2005, filed as Exhibit 10.34 to Form 10-Q for the quarter ended June 30, 2005.**
*10.45	Medical Reimbursement Plan (MRP1) effective January 1, 2006.**
*10.45.1	Medical Reimbursement Plan (MRP2) effective January 1, 2006.**
*10.46	Leased Vehicle Plan as amended and restated on January 1, 2006.**
10.51	Supplemental Executive Retirement Plan as Amended and Restated on January 1, 2005, filed as Exhibit 10.51 to Form 8-K on December 8, 2005.**
10.52	Outside Directors' Stock Award Plan, filed as Exhibit 10.52 to Form 10-K for the year ended December 31, 2002.**
10.53	Directors' resolutions dated July 26, 2005, under which directors' compensation was established, filed as Exhibit 10.53 to Form 8-K on July 27, 2005.**
10.55	Management Incentive Compensation Plan for 2006, filed as Exhibit 10.55 to Form 8-K on March 8, 2006.**
10.56	2005 Three Year Incentive Plan, filed as Exhibit 10.56 to Form 8-K on May 31, 2005.**
19	Exhibits marked with an asterisk are filed herewith.
*23	Consent of Independent Auditors.
*31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
*32.0	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

** Identifies management contract or compensatory plan or arrangement required to be filed as an Exhibit.

ˆ Portions of the exhibit have been omitted pursuant to a confidential treatment request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

L. B. FOSTER COMPANY

March 14, 2006

By: /s/ Stan L. Hasselbusch
(Stan L. Hasselbusch,
President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Position	Date
By: /s/ Lee B. Foster II (Lee B. Foster II)	Chairman of the Board and Director	March 14, 2006
By: /s/ Stan L. Hasselbusch (Stan L. Hasselbusch)	President, Chief Executive Officer and Director	March 14, 2006
By: /s/ Henry J. Massman IV (Henry J. Massman IV)	Director	March 9, 2006
By: /s/ Diane B. Owen (Diane B. Owen)	Director	March 10, 2006
By: /s/ Linda K. Patterson (Linda K. Patterson)	Controller	March 14, 2006
By: /s/ John W. Puth (John W. Puth)	Director	March 9, 2006
By: /s/ William H. Rackoff (William H. Rackoff)	Director	March 14, 2006
By: /s/ David J. Russo (David J. Russo)	Senior Vice President, Chief Financial Officer and Treasurer	March 14, 2006

Exhibit 31.1

Certification under Section 302 of the Sarbanes-Oxley Act of 2002

I, Stan L. Hasselbusch, President and Chief Executive Officer of L. B. Foster Company, certify that:

1. I have reviewed this Report on Form 10-K of L. B. Foster Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 13, 2006

/s/ Stan L. Hasselbusch

Name: Stan L. Hasselbusch
Title: President and Chief Executive Officer

Exhibit 31.2

Certification under Section 302 of the
Sarbanes-Oxley Act of 2002

I, David J. Russo, Senior Vice President, Chief Financial Officer and Treasurer of L. B. Foster Company, certify that:

1. I have reviewed this Report on Form 10-K of L. B. Foster Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 13, 2006

/s/ David J. Russo

Name: David J. Russo
Title: Senior Vice President,
Chief Financial Officer and Treasurer

Exhibit 32.0

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of L. B. Foster Company (the "Company") on Form 10-K for the period ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 13, 2006

By: /s/ Stan L. Hasselbusch
Stan L. Hasselbusch
President and Chief Executive Officer

Date: March 13, 2006

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

Corporate Officers

Lee B. Foster II
Chairman of the Board

Stan L. Hasselbusch
President and Chief Executive Officer

Alec C. Bloem
Senior Vice President, Concrete Products

Merry L. Brumbaugh
Vice President, Tubular Products

Samuel K. Fisher
Senior Vice President, Rail Products

Donald L. Foster
Senior Vice President, Construction Products

Robert J. Howard
Vice President, Human Resources

John F. Kasel
Senior Vice President, Operations and Manufacturing

Gregory W. Lippard
Vice President, Rail Product Sales

Linda K. Patterson
Controller

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

David L. Voltz
Vice President, General Counsel and Secretary

Corporate Headquarters

415 Holiday Drive, Pittsburgh, PA 15220
412.928.3417
800.255.4500 (Toll-free nationwide sales number)
www.lbfoster.com

Directors

Lee B. Foster II
Chairman of the Board
L.B. Foster Company

Stan L. Hasselbusch
President and Chief Executive Officer
L.B. Foster Company

Henry J. Massman IV
President and Chief Executive Officer
Massman Construction Company

Diane B. Owen
Vice President – Corporate Audit
H.J. Heinz Company

John W. Puth
J.W. Puth Associates

William H. Rackoff
President and Chief Executive Officer
ASKO, INC.

Stockholder Information

Annual Meeting

The annual meeting of stockholders will be held at the Corporate Headquarters, 415 Holiday Drive Pittsburgh, Pennsylvania on Wednesday, May 24, 2006 at 11:00 am.

Form 10-K

Additional copies of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K is available upon request from L.B. Foster's Investor Relations Department or from the Company website at www.lbfoster.com.

Stock Trading

L.B. Foster Company's common stock is traded on NASDAQ. The ticker symbol is FSTR.

Transfer Agent

American Stock Transfer & Trust Company

LBFoster

LBFoster

Corporate Headquarters
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412.928.3417 800.255.4500 www.lbfoster.com