

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

25-1324733
(I.R.S. Employer Identification No.)
15220
(Zip Code)

Registrant's telephone number, including area code:

(412) 928-3417

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

Title of Each Class	Name of Each Exchange on Which Registered
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.

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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
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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.

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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
	<u>\$ 129,455</u>	<u>\$ 100,064</u>

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.

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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.

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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:

<u>Location</u>	<u>Function</u>	<u>Acres</u>	<u>Business Segment</u>	<u>Lease Expires</u>
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

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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.

<u>Name</u>	<u>Age</u>	<u>Position</u>
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

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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:

Quarter	2005		2004	
	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 (Excluding 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

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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,

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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.

Balance Sheet Data	December 31,				
	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.

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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

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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 its carrying

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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

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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 than 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

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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					
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

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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

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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	<u>36.9</u>	<u>18.0</u>
Equity	80.0	73.7
Total Capitalization	<u>\$ 116.9</u>	<u>\$ 91.7</u>

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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:

	<u>December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>In millions</u>		
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	<u>(28.8)</u>	<u>(11.4)</u>	<u>(3.9)</u>
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	<u>30.1</u>	<u>7.5</u>	<u>4.4</u>
Net Change in Cash	<u>\$ 1.3</u>	<u>\$ (3.9)</u>	<u>\$ 0.5</u>

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

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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:

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>More than 5 Years</u>
	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	<u>\$ 2,938</u>	<u>\$ 2,938</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

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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.

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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.

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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	<u>120,430</u>	<u>84,298</u>
PROPERTY, PLANT AND EQUIPMENT — NET	<u>40,184</u>	<u>30,378</u>
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	<u>17,672</u>	<u>19,419</u>
TOTAL ASSETS	<u>\$ 178,286</u>	<u>\$ 134,095</u>
	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	<u>64,335</u>	<u>37,467</u>
LONG-TERM DEBT	<u>29,276</u>	<u>17,395</u>
DEFERRED TAX LIABILITIES	<u>1,615</u>	<u>2,898</u>
OTHER LONG-TERM LIABILITIES	<u>3,071</u>	<u>2,592</u>
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	<u>79,989</u>	<u>73,743</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 178,286</u>	<u>\$ 134,095</u>

See Notes to Consolidated Financial Statements.

L. B. FOSTER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE YEARS ENDED DECEMBER 31, 2005

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	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)
	<u>345,746</u>	<u>295,462</u>	<u>260,405</u>
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	<u>\$ 5,434</u>	<u>\$ 1,480</u>	<u>\$ 3,440</u>
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	<u>\$ 0.54</u>	<u>\$ 0.15</u>	<u>\$ 0.36</u>
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	<u>\$ 0.52</u>	<u>\$ 0.14</u>	<u>\$ 0.35</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	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	<u>\$ 1,596</u>	<u>\$ 280</u>	<u>\$ 4,134</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest Paid	<u>\$ 2,190</u>	<u>\$ 1,592</u>	<u>\$ 2,087</u>
Income Taxes Paid	<u>\$ 13</u>	<u>\$ 196</u>	<u>\$ 773</u>

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

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total</u>
	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	<u>102</u>	<u>35,018</u>	<u>38,399</u>	<u>(2,304)</u>	<u>(671)</u>	<u>70,544</u>
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	<u>102</u>	<u>35,131</u>	<u>39,879</u>	<u>(654)</u>	<u>(715)</u>	<u>73,743</u>
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	<u>\$ 102</u>	<u>\$ 35,598</u>	<u>\$ 45,313</u>	<u>\$ (126)</u>	<u>\$ (898)</u>	<u>\$ 79,989</u>

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

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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:

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
	In thousands			
Licensing agreements	\$ 400	\$ (281)	\$ 400	\$ (216)
Non-compete agreements	350	(280)	350	(210)
Patents	200	(114)	200	(94)
Total	<u>\$ 950</u>	<u>\$ (675)</u>	<u>\$ 950</u>	<u>\$ (520)</u>

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

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\$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	<u>\$ 5,235</u>	<u>\$ 1,256</u>	<u>\$ 1,907</u>
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

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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

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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:

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

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

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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:

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

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:

	<u>2005</u>	<u>2004</u>
	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	<u>76,839</u>	<u>48,132</u>
Less:		
Current cost over LIFO stated values	(6,227)	(4,702)
Inventory valuation reserve	(1,663)	(1,416)
	<u>\$ 68,949</u>	<u>\$ 42,014</u>

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

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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:

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

Note 6.

Property, Plant and Equipment

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

	<u>2005</u>	<u>2004</u> 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
	<u>82,566</u>	<u>70,467</u>
Less accumulated depreciation and amortization, including accumulated amortization of capitalized leases	<u>42,382</u>	<u>40,089</u>
	<u>\$ 40,184</u>	<u>\$ 30,378</u>

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

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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:

	<u>2005</u>	<u>2004</u>
	<u>In thousands</u>	
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
	<u>31,035</u>	<u>17,872</u>
Less current maturities	1,759	477
	<u>\$ 29,276</u>	<u>\$ 17,395</u>

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 counterparty 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.

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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.

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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	<u>1,042,450</u>	<u>1,134,675</u>	<u>1,360,715</u>
Exercisable at end of year	<u>907,975</u>	<u>897,625</u>	<u>1,026,715</u>
Number of shares available for future grant:			
Beginning of year	<u>85,125</u>	<u>156,175</u>	<u>182,550</u>
End of year	<u>42,125</u>	<u>85,125</u>	<u>156,175</u>

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

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number of Shares</u>	<u>Weighted Average Remaining Life</u>	<u>Weighted Exercise Price</u>	<u>Shares Exercisable</u>	<u>Weighted Exercise Price</u>
\$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
	<u>1,042,450</u>	5.3	\$ 5.01	<u>907,975</u>	\$ 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	<u>\$ 5,434</u>	<u>\$ 1,480</u>	<u>\$ 3,440</u>
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	<u>10,492</u>	<u>10,268</u>	<u>9,748</u>
Basic earnings per share:			
Continuing operations	\$ 0.54	\$ 0.15	\$ 0.23
Discontinued operations	—	—	0.13
Basic earnings per common share	<u>\$ 0.54</u>	<u>\$ 0.15</u>	<u>\$ 0.36</u>
Diluted earnings per share:			
Continuing operations	\$ 0.52	\$ 0.14	\$ 0.22
Discontinued operations	—	—	0.13
Diluted earnings per common share	<u>\$ 0.52</u>	<u>\$ 0.14</u>	<u>\$ 0.35</u>

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

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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:

	<u>2005</u>	<u>2004</u>
	In thousands	
Deferred tax liabilities:		
Depreciation	\$ 1,615	\$ 2,898
Inventories	4,844	3,942
Total deferred tax liabilities	<u>6,459</u>	<u>6,840</u>
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	<u>5,237</u>	<u>7,892</u>
Valuation allowance for deferred tax assets	2,276	2,726
Deferred tax assets	<u>2,961</u>	<u>5,166</u>
Net deferred tax liability	<u>\$ (3,498)</u>	<u>\$ (1,674)</u>

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

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

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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)
	<u>29.8%</u>	<u>38.4%</u>	<u>44.0%</u>

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:

Year ending December 31,	<u>Capital Leases</u>	<u>Operating Leases</u>
	In thousands	
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	<u>8,705</u>	<u>\$ 4,638</u>
Less amount representing interest	<u>1,210</u>	
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%	<u>\$ 5,827</u>	

Assets recorded under capital leases are as follows:

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

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.

[Table of Contents](#)**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:

	<u>2005</u>	<u>2004</u>
	<u>In thousands</u>	
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	<u>\$ 3,844</u>	<u>\$ 3,573</u>
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	<u>\$ 2,930</u>	<u>\$ 2,602</u>
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	<u>\$ 391</u>	<u>\$ 225</u>
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	<u>\$ 391</u>	<u>\$ 225</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>In thousands</u>		
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	<u>\$ 125</u>	<u>\$ 143</u>	<u>\$ 181</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
		<u>In thousands</u>	
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:

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

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

The following benefit payments are expected to be paid:

	<u>Pension Benefits</u>
	<u>In thousands</u>
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

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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.

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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.

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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					
	<u>Net Sales</u>	<u>Segment Profit</u>	<u>Segment Assets</u>	<u>Expenditures for Long-Lived Assets</u>	
			<u>In thousands</u>		
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	<u>\$ 353,484</u>	<u>\$ 9,849</u>	<u>\$ 156,826</u>	<u>\$ 4,926</u>	<u>\$ 16,148</u>
2004					
	<u>Net Sales</u>	<u>Segment Profit</u>	<u>Segment Assets</u>	<u>Depreciation/Amortization</u>	<u>Expenditures for Long-Lived Assets</u>
			<u>In thousands</u>		
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	<u>\$ 297,866</u>	<u>\$ 6,104</u>	<u>\$ 109,833</u>	<u>\$ 4,867</u>	<u>\$ 2,328</u>
2003					
	<u>Net Sales</u>	<u>Segment Profit</u>	<u>Segment Assets</u>	<u>Depreciation/Amortization</u>	<u>Expenditures for Long-Lived Assets</u>
			<u>In thousands</u>		
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	<u>\$ 264,266</u>	<u>\$ 5,309</u>	<u>\$ 99,633</u>	<u>\$ 4,648</u>	<u>\$ 2,693</u>

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.

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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:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
		<u>In thousands</u>	
Net Sales from Continuing Operations:			
Total for reportable segments	\$ 353,484	\$ 297,866	\$ 264,266
Other net sales	—	—	—
Total	<u>\$ 353,484</u>	<u>\$ 297,866</u>	<u>\$ 264,266</u>
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	<u>\$ 7,738</u>	<u>\$ 2,404</u>	<u>\$ 3,861</u>
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	<u>\$ 178,286</u>	<u>\$ 134,095</u>	<u>\$ 131,159</u>
Depreciation/ Amortization:			
Total reportable for segments	\$ 4,926	\$ 4,867	\$ 4,648
Other	344	409	560
Total	<u>\$ 5,270</u>	<u>\$ 5,276</u>	<u>\$ 5,208</u>
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	<u>\$ 15,309</u>	<u>\$ 2,617</u>	<u>\$ 2,593</u>

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				Total
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
	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				Total
	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter	
	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.

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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.

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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

	Balance at Beginning of Year	Additions		Deductions	Balance at End of Year
		Charged to Costs and Expenses	Other (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.

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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.

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^10.21	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.
^10.21.1	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.

^ 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.

<u>Name</u>	<u>Position</u>	<u>Date</u>
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

ASSET PURCHASE AGREEMENT

BY AND BETWEEN

L.B. FOSTER COMPANY,

A PENNSYLVANIA CORPORATION

AND

THE REINFORCED EARTH COMPANY,

A DELAWARE CORPORATION

DATED AS OF FEBRUARY 15, 2006

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EXHIBITS:

- Exhibit A - Noncompetition Agreement
- Exhibit B - Press Release
- Exhibit C - Form of Subcontract

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- Schedule 1.1 - Exclusions from Data
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- Schedule 6.1. - Conduct and Preservation of the Business

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT ("Agreement"), dated and effective as of February 15, 2006, is by and between L.B. Foster Company, a Pennsylvania corporation ("Seller"), and The Reinforced Earth Company, a Delaware corporation ("Buyer").

RECITALS:

A. Seller is the owner of certain assets comprising the Business (as defined in Section 1.1).

B. Seller desires to sell to Buyer, and Buyer desires to purchase from Seller, the Specified Assets (as defined in Section 1.1), upon the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, Seller and Buyer agree as follow:

ARTICLE I
DEFINITIONS

1.1. Definitions. In this Agreement:

"AAA" shall have the meaning set out in Section 13.2(a);

"Accounts Payable" shall mean all accounts payable (excluding all accounts payable in respect of Taxes accruing during the Pre-Closing Date Period), accrued expenses and other current liabilities (including prepaid sales and accrued freight) arising under the Specified Contracts and existing as of the Closing Date;

"Adjustment Amount" shall have the meaning set out in Section 2.5;

"Affiliate" of a Person shall mean a Person directly or indirectly controlled by, controlling or under common control with the other Person. For the purposes of this definition, "control" means, when used with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract, or otherwise, and the terms "controlling" and "controlled" have correlative meanings;

"Allocation of Total Consideration" shall have the meaning set out in Section 2.7;

"Alternative Arrangement" shall have the meaning set out in Section 7.10;

"Applicable Law" shall mean any statute, law, rule, or regulation, or any judgment, order, ordinance, writ, injunction, or decree of, any Governmental Entity to which a specified Person or property is subject;

"Award" shall have the meaning set out in Section 13.5;

"Benefit Plan" shall have the meaning set out in Section 3.12;

"Business" shall mean the mechanical stabilized earth business of Seller's Geotech/Retained Earth Division, excluding its soundwall business, and the products and services related thereto;

"Business Day" shall mean any day other than a Saturday, Sunday or day on which banks located in the Commonwealth of Virginia are authorized or obligated to close.

"Business Employees" shall have the meaning set out in Section 3.12;

"Buyer Benefit Plans" shall have the meaning set out in Section 7.12(d);

"Buyer Indemnified Parties" shall have the meaning set out in Section 11.2;

"Buyer's Closing Conditions" shall have the meaning set out in Article IX;

"Buyer's Consents and Approvals" shall mean all consents, approvals, authorizations, licenses, actions, filings, notifications and other items listed in Schedule 4.4;

"Claim" shall have the meaning set out in Section 11.1;

"Claim Notice" shall have the meaning set out in Section 11.3;

"Closing" shall have the meaning set out in Section 5.1;

"Closing Conditions" shall mean, collectively, Seller's Closing Conditions and Buyer's Closing Conditions;

"Closing Date" shall mean the date on which the Closing occurs;

"Closing Date Net Asset Value" means the Net Asset Value as of the Closing Date;

"Code" shall mean the Internal Revenue Code of 1986, as amended;

"Confidential Information" shall have the meaning set out in Section 7.9(a);

"Consents and Approvals" shall mean, collectively, Seller's Consents and Approvals and Buyer's Consents and Approvals;

"Customer Information" shall have the meaning set out in Section 3.16;

"Customers" shall mean all customers party to the Specified Contracts, a current list of which, together with certain other information about such customers and their Specified Contracts, is set forth in Schedule 3.10(B)(I);

"Data" shall mean all data to the extent comprising or primarily related to the Specified Assets, including, without limitation, data generated, processed, computed, stored, created or otherwise manipulated by or a derivative of the Specified Assets, to the extent primarily related to the Specified Assets and of significance to the continued operation of the Business, except for

data specifically excluded pursuant to Schedule 1.1 and not otherwise provided by Seller to Buyer;

"Deferred Contract" shall have the meaning set out in Section 7.10;

"Direct Claim" shall mean a Claim against an Indemnifying Party that does not involve damages being asserted against it or sought to be collected from it by a Third Party;

"Dispute Deadline Date" shall have the meaning set out in Section 2.6(b);

"Disputes" shall have the meaning set out in Section 13.1;

"Disputing Party" shall have the meaning set out in Section 13.1;

"Effective Date" shall mean the date first set forth above;

"Encumbrances" shall mean liens, charges, pledges, options and other rights of ownership, mortgages, deeds of trust, security interests, restrictions (whether on voting, sale, transfer, disposition, or otherwise), easements, claims, licenses and other rights of usage, and other encumbrances of every type and description, whether imposed by law, agreement, understanding, or otherwise;

"Environmental Claim" shall mean any and all administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigations or other adversarial proceedings relating to any Environmental Law or Environmental Permit including, without limitation (i) any and all claims by governmental, territorial or regulatory authorities for enforcement, cleanup, removal, response, remedial or other similar actions or damages pursuant to any applicable Environmental Law and (ii) any and all claims by a third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Substances or arising from alleged injury or threat of injury to human health, property, or the environment resulting from exposures to or Releases of Hazardous Substances. An "Environmental Claim" includes, but is not limited to, a common law action, as well as a proceeding to issue, modify, terminate or enforce the provisions of an Environmental Permit or requirement of Environmental Law, or to adopt or amend a regulation to the extent that such a proceeding attempts to redress violations or alleged violations of the applicable permit, license, or regulation;

"Environmental Law" shall mean any federal, state, territorial, or local statute, law, rule, regulation, ordinance, code, policy or rule of common law in effect and in each case as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to the environment or Hazardous Substances, including, without limitation: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. ' 9601 et seq.; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. ' 11001 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. ' 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. ' 1251 et seq.; the Clean Air Act, 42 U.S.C. ' 7401 et seq.; the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. ' 136 et seq.; the Safe Drinking Water Act, 42 U.S.C. ' 300f et seq.; the Toxic Substance Control Act, 15 U.S.C.

' 2601 et seq.; the Oil Pollution Act of 1990, 33 U.S.C. ' 2701 et seq.; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. ' 5101 et seq.; the Atomic Energy Act, as amended, 42 U.S.C. ' 2011 et seq.; any laws regulating the use of biological agents or substances including medical or infectious wastes; and any corresponding or analogous foreign, territorial, state or local laws, regulations or ordinances, which may be applicable, as any such acts may be amended;

"Environmental Permits" shall mean all permits, approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law;

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended;

"Estimated Net Asset Value" shall mean \$2,691,000.

"Estimated Total Consideration" shall have the meaning set out in Section 2.4(b).

"Excluded Assets" shall have the meaning set out in Section 2.2;

"Excluded Liabilities" shall have the meaning set out in Section 2.3;

"Fosmart" shall mean Fosmart, Inc., an Affiliate of Seller that holds title to and has rights associated with certain trademarks used by Seller in its operation of the Business;

"Fosmart Marks" means certain trademarks owned by Fosmart and used in Seller's operation of the Business, including the Trademark;

"GAAP" shall mean generally accepted accounting principles in the United States of America as consistently applied by Seller and as promulgated by the Financial Accounting Standards Board from time to time, with such exceptions to such generally accepted accounting principles as may be noted or otherwise referred to on any individual financial statement or schedule;

"Governmental Entity" shall mean any court or tribunal in any jurisdiction (domestic or foreign) or any federal, state, municipal or local government or other governmental body, agency, authority, department, commission, board, bureau, instrumentality, arbitrator or arbitral body (domestic or foreign);

"Hazardous Substances" shall mean (i) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "hazardous air pollutants," "pollutants," "contaminants," "toxic chemicals," "toxics," "hazardous chemicals," "extremely hazardous substances," "regulated substances" or "pesticides" as defined as such in any applicable Environmental Law, (ii) any radioactive materials, asbestos-containing materials, urea formaldehyde foam insulation, and radon in harmful quantities or concentration that are regulated by any Governmental Entity having jurisdiction in the location of such materials, and (iii) any other chemical, material or substance, exposure to which is prohibited, limited or

regulated by any Governmental Entity having jurisdiction in the location of such substances on the basis of potential hazards;

"Hired Business Employees" shall have the meaning set out in Section 7.12(a);

"Indemnified Party" shall have the meaning set out in Section 11.3(a);

"Indemnifying Party" shall have the meaning set out in Section 11.3(a);

"IT Specified Assets" shall have the meaning set out in Section 3.9(b);

"Knowledge" shall mean the actual knowledge (unless otherwise provided for hereunder), of the applicable Person's executive officers and current division managers engaged in the Business, unless other individual(s) are specifically referenced.

"Material Adverse Effect" shall mean, with respect to the Specified Assets, the Business, Seller or Buyer, respectively, any material adverse change or material adverse condition in or relating to the financial condition, results of operations, or business of the Specified Assets, Business, Seller or Buyer, respectively, or that impedes the ability of Seller or Buyer, respectively, to consummate the transactions contemplated hereby, or perform its obligations hereunder;

"Net Asset Value" means the book value of the following Specified Assets determined in accordance with GAAP: (a) fixed assets primarily related to the Business but excluding the Excluded Assets, (b) work in progress, valued using the percentage of completion method employed by Seller consisting of costs incurred plus profit minus billing, (c) inventory related to the Business (but excluding the Excluded Assets), and (d) Miscellaneous Assets (as defined in Schedule 3.5(A)(v)), all as of 10 a.m. (EST) on the Closing Date with respect to determination of the Closing Date Net Asset Value;

"Neutral Accountants" means a nationally-recognized independent firm of certified public accountants mutually selected by Seller and Buyer or, if the parties fail to agree within thirty (30) days after the 30-day negotiation period set forth in Section 2.6(c), KPMG, or if KPMG is not available, PriceWaterhouse Coopers;

"Noncompetition Agreement" shall mean a Noncompetition Agreement between Seller and Buyer as of the Closing Date, substantially in the form of Exhibit A;

"Notice" shall have the meaning set out in Section 14.1;

"Notice Period" shall have the meaning set out in Section 11.3(b);

"Permits" shall mean any licenses, permits, consents, approvals, variances, exemptions, franchises, registrations and other authorizations of or from Governmental Entities, and shall include, without limitation, the Environmental Permits;

"Person" shall mean any individual, corporation, partnership, joint venture, trust, limited liability company, unincorporated organization, Governmental Entity or other entity;

"Pre-Closing Date Period" shall have the meaning set out in Section 12.1(a);

"Proceedings" shall mean all proceedings, actions, claims, suits, investigations, and inquiries by or before any Governmental Entity;

"Real Property" shall have the meaning set out in Section 2.2(b).

"Release" shall mean any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of any Hazardous Substance into the environment or into or out of any property, including the movement of any Hazardous Substance through or in the air, soil, surface water, groundwater or property;

"Returns" shall mean all reports, estimates, declarations of estimated tax, information statements and returns relating to, or required to be filed in connection with, any Taxes, including information returns or reports with respect to backup withholding and other payments to third parties;

"Seller Indemnified Parties" shall have the meaning set out in Section 11.1;

"Seller's Closing Conditions" shall have the meaning set out in Article VIII;

"Seller's Consents and Approvals" shall mean all consents, approvals, authorizations, licenses, actions, filings, notifications and other items listed on Schedule 3.4;

"Seller's Credit Agreement" shall have the meaning set out in Section 3.6;

"Seller Tax Matter" shall have the meaning set out in Section 12.2;

"Specified Assets" shall mean only the assets set forth or described on Schedule 3.5(A) hereto, as may be modified at Closing by the agreement of the parties hereto;

"Specified Contracts" shall mean the contracts, agreements, commitments and instruments with customers, suppliers, vendors, lessors, lessees, providers of others listed on Schedule 3.10(B)(I);

"Specified IP Rights" shall have the meaning set out in Section 3.9(a);

"Specified Liabilities" shall mean (i) the obligations arising or to be performed from and after the Closing under and with respect to the Specified Contracts; (ii) liabilities arising in connection with the operation of the Specified Assets after the Closing Date, and (iii) liability identified in Schedule 3.5(A) as Specified Liabilities. The term "Specified Liabilities" shall not include, and hereby expressly excludes, the Excluded Liabilities;

"Statement" shall have the meaning set out in Section 2.6(a);

"Taxes" shall mean all taxes, however denominated, including any interest, penalties or other additions to tax that may become payable in respect thereof, imposed by any Governmental Entity, which taxes shall include, without limiting the generality of the foregoing, all income or

profits taxes (including, but not limited to, federal income taxes, state income taxes and any liability for the payment of any combined or consolidated tax, including liability imposed pursuant to Treasury Regulations Section 1.1502-6), gross receipts taxes, sales taxes, use taxes, real property gains or transfer taxes, ad valorem taxes, property taxes, value-added taxes, franchise taxes, production taxes, severance taxes, windfall profit taxes, withholding taxes, payroll taxes, employment taxes, social security, excise taxes and other obligations of the same or similar nature to any of the foregoing, whether disputed or not;

"Third Party" shall have the meaning set out in Section 11.3(a);

"Total Consideration" shall have the meaning set out in Section 2.4(a);

"Trademark" shall mean the trademark "Retained Earth", as described in Schedule 3.9(A), which shall be included in the Specified Assets.

1.2. Construction. In construing this Agreement, the following principles shall be followed:

(a) the terms "herein," "hereof," "hereby," and "hereunder," or other similar terms, refer to this Agreement as a whole and not only to the particular Article, Section or other subdivision in which any such terms may be employed;

(b) references to Articles, Sections, and other subdivisions refer to the Articles, Sections, and other subdivisions of this Agreement;

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP;

(d) no consideration shall be given to the captions of the articles, sections, subsections, or clauses, which are inserted for convenience in locating the provisions of this Agreement and not as an aid in its construction;

(e) examples shall not be construed to limit, expressly or by implication, the matter they illustrate;

(f) the word "includes" and its syntactical variants mean "includes, but is not limited to" and corresponding syntactical variant expressions;

(g) a defined term has its defined meaning throughout this Agreement, regardless of whether it appears before or after the place in this Agreement where it is defined;

(h) the plural shall be deemed to include the singular, and vice versa;

(i) each exhibit, attachment, and schedule to this Agreement is a part of this Agreement, but if there is any conflict or inconsistency between the main body of this Agreement and any exhibit, attachment, or schedule, the provisions of the main body of this Agreement shall prevail; and

(j) the phrases "set forth in", "described in" and "included in" an identified Schedule means expressly referred to or contained in the identified Schedule.

ARTICLE II
THE ACQUISITION

2.1. Agreement to Purchase and Sell. Upon the terms and subject to the conditions of this Agreement, Seller hereby agrees to sell, convey, transfer, assign and deliver to Buyer, and Buyer hereby agrees to purchase from Seller, at the Closing, all of the Specified Assets, free and clear of all Encumbrances, and to assume the Specified Liabilities. Buyer shall not assume and shall have no liability for the Excluded Liabilities, which Excluded Liabilities shall be retained by Seller.

2.2. Excluded Assets. Other than the assets of Seller expressly defined herein as Specified Assets, the assets of Seller (collectively, the "Excluded Assets") are not part of the sale and purchase contemplated hereunder, are excluded from the Specified Assets and shall remain the property of Seller after the Closing. Without limiting the generality of the foregoing, the following assets shall be specifically excluded from the transactions contemplated hereby and shall be considered part of the Excluded Assets:

(a) Soundwall forms and other assets utilized in the soundwall business;

(b) Any right, title or interest of Seller in any real property, including but not limited to such real property located in the state of Colorado ("Real Property");

(c) All cash in Seller's possession as of the Closing Date, including without limitation all such cash attributable to the Business;

(d) Seller's accounts receivable as of the Closing Date;

(e) (i) All assets held under any "employee benefit plan" (as defined in section 3(3) of ERISA) currently or heretofore maintained or contributed to by Seller or any Affiliates of Seller; and (ii) contracts and obligations requiring the maintenance of or contribution to any such employee benefit plan;

(f) All current or deferred income Taxes and all Seller's claims for refunds of Taxes and other similar governmental charges or assessments pertaining to the Pre-Closing Date Period or which do not relate to the Specified Assets;

(g) Any books and records of Seller that Seller is required by law to retain; provided that Seller shall provide Buyer with copies of such retained books and records that relate to the Business or any of the Specified Assets;

(h) All of Seller's right, title and interest in and to any contract exclusively associated with, as well as the assets (including associated books and records) exclusively used in connection with, the T-Rex I-25 Project (Seller's Project Reference No. G70012 and No. G70042), in Denver, Colorado;

(i) Seller's books and records associated with the Project Ref. No. STP-1482(1)(2), Clearfield 200 South, Utah Department of Transportation, in Clearfield, UT;

(j) All of Seller's rights, title and interest in and to any bonds issued on Seller's behalf, including but not limited to bid, performance and payment bonds;

(k) All of Seller's rights pursuant to this Agreement and the instruments delivered hereunder; and

(l) Any names or marks utilized by Seller in the conduct of its business, other than the Trademark.

2.3. Excluded Liabilities. For purposes of this Agreement, the term "Excluded Liabilities" shall mean all liabilities and obligations of Seller (other than the Specified Liabilities), known or unknown, direct or contingent, choate or inchoate, arising out of, based upon, or relating to any event, condition, circumstance, act or omission occurring or existing before, on or after the Closing Date. Without limiting the generality of the foregoing, the Excluded Liabilities shall include:

(a) subject to Buyer's obligation to mitigate liabilities arising out of the Specified Contracts by Buyer's commercially reasonable efforts, all liabilities and obligations of Seller arising out of, based upon or resulting from, (i) any Environmental Law or any Environmental Claim against Seller or the Business, (ii) Seller's operations of the Business (including Seller's operation of the Business on or at third-party sites), and (iii) any act, omission, occurrence, event, condition or circumstance occurring or existing at any time on or before the Closing Date and involving or related to the Specified Assets or the Business;

(b) all liabilities and obligations arising out of the Excluded Assets;

(c) subject to Buyer's obligation to mitigate liabilities arising out of the Specified Contracts by Buyer's commercially reasonable actions, all liabilities and obligations attributable to Seller's errors, omissions and misrepresentations prior to the Closing Date which directly relate to the Specified Assets or the Specified Contracts, subject to the last sentence of this Section 2.3.

Notwithstanding anything to the contrary in this Agreement, Seller shall have no liability with respect to any variance between job cost estimates with respect to any of the Specified Contracts and the actual cost of performing any of the Specified Contracts, except to the extent Seller's job cost estimates (as reflected in the Geotech job-by-job analysis included in Schedule 3.10 (B)(I) as of the date of its preparation) are patently unreasonable (as proven by Buyer through clear and convincing evidence) or intentionally inaccurate.

2.4. Total Consideration.

(a) Amount. Subject to adjustment in accordance with Section 2.5, the amount payable in consideration of the sale, transfer, conveyance, assignment and delivery by Seller of the Specified Assets, and payment for Seller's assumption of obligations under the Noncompetition Agreement (in addition to Buyer's assumption of

the Specified Liabilities) (the "Total Consideration") shall be equal to the sum of (i) Four Million United States dollars (U.S.\$ 4,000,000), and (ii) the Closing Date Net Asset Value.

(b) Payment Terms. At the Closing, Buyer will pay to Seller, in immediately available funds in accordance with wiring instructions to be provided by Seller to Buyer at least five (5) Business Days prior to the Closing Date, an amount (the "Estimated Total Consideration") equal to the sum of (i) Four Million United States dollars (U.S.\$4,000,000) and (ii) the Estimated Net Asset Value.

2.5. Adjustment. The Estimated Total Consideration paid to Seller pursuant to Section 2.4(b) shall be adjusted to equal the Total Consideration payable to Seller pursuant to Section 2.4(a) as follows: (a) If the Closing Date Net Asset Value shall be less than the Estimated Net Asset Value, the amount paid as Estimated Total Consideration shall be reduced by such deficit, on a dollar-for-dollar basis, and Seller shall pay such amount as set forth in Section 2.6. (b) If the Closing Date Net Asset Value shall be greater than the Estimated Net Asset Value, the amount paid as Estimated Total Consideration shall be increased by such excess, on a dollar-for-dollar basis, and Buyer shall pay such amount as set forth in Section 2.6. The amount by which the amount paid as Estimated Total Consideration shall be increased or decreased pursuant to this Section 2.5 shall be the "Adjustment Amount".

2.6. Net Assets.

(a) As promptly as practical after the Closing Date and receipt by Buyer of the necessary information, books and accounts, but in no event later than twenty (20) days thereafter, Buyer shall cause the preparation of, and deliver to Seller, a statement of the Closing Date Net Asset Value (the "Statement"), together with Buyer's calculations of the Adjustment Amount, and shall be accompanied by the payment of any portion of the Adjustment Amount which Seller (or Buyer) does not dispute is owed to Buyer (or Seller). Seller shall have the right to cause the preparation of the Statement in the event of Buyer's failure to perform its obligation under this Section 2.6(a).

(b) The Statement and Buyer's (or Seller's) calculation of the Adjustment Amount shall become final and binding on Seller and Buyer on the 20th day following the date Buyer (or Seller) delivers the Statement and Buyer's (or Seller's) calculation of the Adjustment Amount (the "Dispute Deadline Date"), unless prior to the Dispute Deadline Date Seller (or Buyer) delivers notice to Buyer (or Seller) of its disagreement. Such notice shall set forth all of the disputed items together with proposed changes thereto, including an explanation in reasonable detail of the basis of proposed changes, and shall be accompanied by the payment of any portion of the Adjustment Amount which Seller (or Buyer) does not dispute is owed to Buyer (or Seller).

(c) If Seller (or Buyer) has delivered a timely notice of disagreement, then Buyer and Seller shall use their good faith efforts to reach written agreement on the disputed items (in which case, such mutual agreement shall be conclusive as to the value of the Adjustment Amount). If all of the disputed items have not been resolved by Buyer and Seller by the 30th day following receipt by Buyer (or Seller) of the notice of

disagreement, then the disputed items shall be submitted to the Neutral Accountants for binding arbitration within twenty (20) days after the end of the foregoing 20-day period. The Neutral Accountants shall complete their determination of the Adjustment Amount within fifteen (15) days from submission of the dispute, unless Buyer and Seller agree otherwise. The fees and expenses of such arbitration shall be borne 50% by Seller and 50% by Buyer, except that if the arbitrators determine that either party proceeded to arbitration in bad faith, or acted in bad faith during the course of the arbitration proceeding, then all expenses of such arbitration, plus interest at a rate of 1 1/2% per month on such unpaid portion of the Adjustment Amount, calculated from the Closing Date until the date of actual payment, shall be paid by the party that is determined to have acted in bad faith. For purposes of this provision, a party's failure to remit any portion of the Adjustment Amount which such party does not, in good faith, dispute is owed to the other party shall be considered "bad faith". The determination of the Closing Date Net Asset Value and the Adjustment Amount by such arbitration shall be final and binding upon the parties. Seller (or Buyer) shall pay the balance of the Adjustment Amount not yet paid within five (5) Business Days from the date of determination of the Adjustment Amount either by agreement of the parties or by the Neutral Accountants.

(d) The Statement shall be prepared from Seller's books and records in accordance with GAAP, applied on a consistent basis.

2.7. Allocation of Total Consideration. Seller and Buyer agree to allocate the Total Consideration (together with the Specified Liabilities) for the Specified Assets and the obligations under the Noncompetition Agreement, as set forth on Schedule 2.7 (the "Allocation of Total Consideration"). The Allocation of Total Consideration shall be completed in the manner required by Code Section 1060. Seller and Buyer further agree to comply with all filing, notice and reporting requirements described in Code Section 1060 and the Treasury Regulations promulgated thereunder, including the timely preparation and filing of Forms 8594 based on the Allocation of Total Consideration. Seller and Buyer hereby agree that they will report the federal, state, foreign and other tax consequences of the transactions contemplated by this Agreement in a manner consistent with the Allocation of Total Consideration.

2.8. Receipts After Closing. After the Closing, Seller may receive funds, proceeds, contributions, refunds, rebates, payments or receipts that are attributable to the Specified Assets and are properly allocable to Buyer under the terms of this Agreement. Seller agrees to remit or cause to be remitted any of the foregoing to Buyer, within five (5) Business Days of receipt thereof. Buyer agrees to remit to Seller within five (5) Business Days of receipt thereof, any funds, proceeds, contributions, rebates, payments or receipts that are attributable to the Excluded Assets and are properly allocable to Seller under the terms of this Agreement. If Seller receives any invoices (not used in the determination of the Adjustment Amount) after Closing properly allocable to work in progress included in the Specified Assets, Buyer shall either pay such invoice directly or remit to Seller within five (5) Business Days of receipt thereof, the amount of such invoices.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer the following:

3.1. Corporate Existence and Qualification. Seller is a corporation duly organized, validly existing and in good standing under the laws of the state of Pennsylvania and is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction necessary to consummate the transactions contemplated under this Agreement, as set forth in Schedule 3.1. Seller has the corporate power to own, operate and lease its properties and to carry on its business as presently conducted.

3.2. Power and Authority; Enforceability. Seller has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by Seller in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by Seller in connection with the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered on behalf of Seller and, assuming due authorization, execution and delivery by Buyer, constitute the legal, valid and binding obligations of Seller enforceable in accordance with their respective terms, except that (a) such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefore may be brought.

3.3. No Conflict. The execution, delivery, and performance of this Agreement by Seller and the consummation by it of the transactions contemplated hereby do not and will not (a) violate or breach the certificate of incorporation or by-laws (or equivalent organizational documents) of Seller, (b) violate or breach any Applicable Law or Permit binding upon Seller, (c) except as set forth in Schedule 3.3, result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to any other Person any rights of termination, amendment, or cancellation of, any Specified Contract or any other contract to which Seller is a party, or acceleration of any obligation of Seller thereunder, or result in the creation of any Encumbrance on any of the Specified Assets pursuant to any note, bond, mortgage, indenture, contract, agreement, lease, license, Permit, franchise or other instrument relating to the Specified Assets to which Seller is a party or by which any of the Specified Assets is bound or affected.

3.4. Consents, Approvals and Permits. No consent, approval, authorization, license, order or permit of, or declaration, filing or registration with, or notification to, any Governmental Entity, or any other Person (including without limitation any Customer), is required to be made or obtained by Seller in connection with the execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby, except as set forth on Schedule 3.4. Seller holds all Permits listed on Schedule 3.4, and such Permits are all Permits necessary or required for Seller's conduct of the Business, except as indicated in Schedule 3.4. All of such Permits are in full force and effect and Seller is in substantial compliance with each such Permit, except as set forth in Schedule 3.4. Except as disclosed in Schedule 3.4, no notice

has been received by Seller and no Proceeding is pending or threatened with respect to any alleged failure by Seller to have any such Permit or not to be in compliance therewith. Except as set forth on Schedule 3.4, no event has occurred and is continuing which requires, or after notice or lapse of time or both would require, any modification or termination of any such Permit held by Seller. Notwithstanding the foregoing, all Environmental Permits shall be governed also by Section 3.14.

3.5. Statements.

(a) Specified Assets and Liabilities. Schedule 3.5(A) sets forth the Specified Assets and the Specified Liabilities.

(b) Financial Information. To Seller's knowledge, Seller has provided to Buyer true and correct copies of all financial schedules requested by Buyer relating to the Specified Assets.

3.6. Absence of Changes. Except as set forth in Schedule 3.6, since December 31, 2005, there has been (a) no change in (i) the assets, liabilities or financial condition of the Business or (ii) the condition (other than financial) of the Specified Assets, other than, with respect to clauses (i) and (ii) hereof, changes in the ordinary course of business the effect of which changes has not caused, individually or in the aggregate, a Material Adverse Effect with respect to the Business or the Specified Assets; (b) no damage, destruction or loss, whether or not covered by insurance, having a Material Adverse Effect with respect to the Business or the Specified Assets; (c) no labor dispute that has caused, individually or in the aggregate, a Material Adverse Effect with respect to the Business; (d) no transfer of any intellectual property rights relevant to the Business; (e) no mortgage or pledge of any assets of the Business other than pursuant to that certain Amended and Restated Revolving Credit and Security Agreement, dated May 5, 2005, entered into by Seller and certain of its Affiliates, as Borrowers, and PNC Bank, National Association and other lenders party thereto, as subsequently amended ("Seller's Credit Agreement"); (f) no motion, order, brief, settlement agreement or other papers filed in any Proceeding; (g) no change in the manner in which the books of account relating to the Business or the Specified Assets have been maintained nor any change in any of its accounting methods or practices; (h) no claim has been filed or reasonably anticipated to be filed which claims would have a Material Adverse Effect with respect to the Business or the Specified Assets, or (i) no agreement or commitment of do any of the foregoing.

3.7. Title to Properties. Seller has good and merchantable title to all of the Specified Assets, free of any Encumbrances, subordination or adverse claim, except as set forth in Schedule 3.7, or for such imperfections of title and Encumbrances as do not individually or in the aggregate materially detract from the value of the Specified Assets or have a Material Adverse Effect with respect to the Business.

3.8. Litigation, Judgments, Etc. Except as set forth in Schedule 3.8, there are no Proceedings pending or, to the Knowledge of Seller, threatened (excluding any rulemaking, investigation or similar proceeding of general applicability and any appeal or petition for review relating thereto) to which Seller is a party that involves the Business or any of the Specified Assets, and Seller is not subject to any judgment, order, writ, injunction, decree, consent,

stipulation or award of or any agreement with any Governmental Entity or arbitrator having jurisdiction over it which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect with respect to the Business or the Specified Assets. Seller has not received any notice of default or violation and, to its Knowledge, except as set forth in Schedule 3.8, Seller is in substantial compliance with any judgment, order, writ, injunction, decree, consent, stipulation, award or agreement applicable to it of any Governmental Entity or arbitrator having jurisdiction over it with respect to the Business or the Specified Assets.

3.9. Intellectual Property and IT.

(a) IP Rights. Schedule 3.9(A) sets forth a list of all patents, patent applications, trademarks (whether registered or not), trademark applications, trade names, copyrights, patent or know-how licenses (wherein Seller is either licensee or licensor) or other intellectual property rights exclusively used in the ordinary course of the Business (the "Specified IP Rights").

(b) IT Assets. Schedule 3.9(B) sets forth a list of all hardware, software, systems, licenses, agreements or other information technology assets which are exclusively used in the ordinary course of the Business (the "IT Specified Assets").

(c) Documents and Information. To Seller's Knowledge (including Knowledge after having made diligent inquiry), Seller has delivered to Buyer complete and accurate copies of all documents and information of material significance related to rights of Seller in the Data, the Specified IP Rights and the IT Specified Assets, or the use or exploitation thereof.

(d) Claims. Except as set forth on Schedule 3.9(D) and to Seller's Knowledge (including Knowledge after having made diligent inquiry): (i) there is no unauthorized use, infringement, or misappropriation of any of the Data, any of the Specified IP Rights or any of the IT Specified Assets by any Person; and (ii) none of the Data, the Specified IP Rights or the IT Specified Assets infringe or have infringed any intellectual property right of any third party. Seller is not subject to any confidentiality obligation with respect to trade secrets, know-how or other materials related to the Data, the Specified IP Rights and the IT Specified Assets. Seller has not received notice of breach or default with regard to, and to Seller's Knowledge (including Knowledge after having made diligent inquiry), Seller is not in breach in any material respect of, any agreement, commitment, contractual understanding, license, sublicense, assignment, or indemnification which relates to any of the Data, the Specified IP Rights or the IT Specified Assets and have not taken, or failed to take, any action that would preclude or hinder the protection or enforcement of the Data, the Specified IP Rights or the IT Specified Assets.

(e) Validity, etc. Except as set forth in Schedule 3.9(E): (i) the Specified IP Rights are in good standing and, to the Knowledge of Seller, are valid and enforceable; (ii) all registrations for copyrights, patent rights and trademarks identified in Schedule 3.9(A) are in full force and, to the Knowledge of Seller (including Knowledge after having made diligent inquiry), valid and all applications to register any unregistered copyrights, patent rights or trademarks so identified are pending and in good standing, all

without challenge by any third party; and (iii) except for the Fosmart Marks, Seller has the sole and exclusive right to bring actions for infringement, misappropriation or unauthorized use of the Specified IP Rights, and, to the Knowledge of Seller, there is no basis for any such action. Copies of all registrations or current applications relating to the Specified IP Rights identified in Schedule 3.9(A) have been made available to Buyer.

(f) Right to Transfer. Without limiting the generality of other provisions of this Agreement and except for the Fosmart Marks as indicated in Schedule 3.9(E), Seller has good and merchantable title to, or the unrestricted license to use the Specified IP Rights and IT Specified Assets, free or any Encumbrances, subordination or adverse claims, and has the right to assign, sell, transfer or convey such Specified IP Rights and IT Specified Assets as contemplated in this Agreement, including but not limited to the assignment of Specified IP Rights used by Seller in the Business pursuant to a license granted to Seller.

3.10. Contractual Obligations.

(a) General. Except as set forth in Schedules 3.10(A), Seller is not a party to any of the following, whether written or oral:

(i) confidentiality agreement related to the Business; or

(ii) agreement that purports to limit its freedom to compete with respect to the Business in any line of business or in any geographic area.

(b) Specified Contracts. With regard to the Specified Contracts:

(i) Set forth on Schedule 3.10(B)(I) is (x) a list of all contracts, agreements, leases and instruments (including all amendments, supplements, and modifications thereto) included in the Specified Assets and to which Seller is a party or by which any of the Specified Assets is otherwise bound or affected, and (y) with respect to each Specified Contract with a Customer, such Customer's address, the contract amount, job name and other information with respect to such Specified Contract, including the Geotech job-by-job analysis report.

(ii) Each Specified Contract is a legal and valid agreement, arrangement or commitment of Seller to which it is a party, enforceable against Seller in accordance with its terms and is a legal and valid agreement, arrangement or commitment of each other party thereto, enforceable against such party in accordance with its terms, except in each case where enforceability may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights generally and except where enforceability is subject to the application of equitable principles or remedies or as would not have, individually or in the aggregate, a Material Adverse Effect with respect to Seller or the Business. Each Specified Contract with a Customer has been duly entered into by such Customer. True and complete copies of the Specified Contracts have been delivered to or otherwise made available to Buyer, and the information regarding Customers and

their Specified Contracts set forth in Schedule 3.10(B)(I) is true and correct in all material respects.

(iii) Except as set forth in Schedule 3.10(B)(II), Seller has not received any claim or notice of, and Seller otherwise has no Knowledge (including Knowledge after diligent inquiry) of any threatened claim or notice of, any breach, violation or default, and Seller is not in breach, violation or default, or but for a requirement that notice be given or that a period of time elapse or both, would be in breach, violation or default, under any Specified Contract which defaults, in each case, individually, or in the aggregate, would reasonably be expected to have a Material Adverse Effect with respect to the Business. Seller has complied in all material respects with all commitments and obligations under each such Specified Contract to which it is a party. Any designs, drawings and engineering work performed by Seller under any Specified Contract are free from errors or omissions.

(iv) Seller has no Knowledge (including Knowledge after diligent inquiry) of any breach, violation or default of any obligation to be performed by any other party to any Specified Contract to which Seller is a party or any other contract pursuant to which any of the Specified Assets is otherwise bound or affected.

3.11. Taxes. Except as set forth in Schedule 3.11, (i) all Returns required to be filed by or on behalf of Seller on or before the Closing Date with respect to the Business or the Specified Assets have been duly filed on a timely basis, (ii) such Returns are true, complete and correct, (iii) all Taxes which were shown to be due on such Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and (iv) no other Taxes, to Seller's Knowledge (including Knowledge after diligent inquiry), are payable by Seller with respect to items or periods covered by such Returns (whether or not shown on or reportable on such Returns) or with respect to the Pre-Closing Date Period; provided, however, that the representations and warranties set forth in this Section 3.11 are made only to the extent that they relate to (i) Taxes that are or may become liens on the Specified Assets or (ii) are Taxes for which Buyer is or may be liable as a transferee, successor, purchaser or in a similar capacity with respect to the Specified Assets. There are no liens for Taxes (other than for Taxes not yet due and payable) upon the Specified Assets.

3.12. Employment Matters. Schedule 3.12(A) is a complete and accurate list, as of the Effective Date, of all employees of Seller who devote their time and effort exclusively to the operation of the Specified Assets and the conduct of the Business, but excluding Mr. Duane Hanlon, Mr. Peter Blunt, Mr. Nicholas Santucci and Mr. Alec Bloem (the "Business Employees"), and such schedule lists their respective names, positions, current compensation (including salaries, wages, commissions, bonuses and other payments), and dates of employment. Seller is not (i) a party to, or bound by, any collective bargaining agreement or any other labor agreement covering or relating to any Business Employee, (ii) in receipt of any demand for recognition by, and has not recognized, any labor organization as the exclusive bargaining representation of any Business Employee, (iii) a party to, or bound by, any contract for the employment of any Business Employee, or (iv) the subject of any Proceeding asserting

that Seller has committed an unfair labor practice or is seeking to compel it to bargain with any labor organization as to wages or conditions of employment with respect to any Business Employee. Each employee benefit plan program, policy or other benefit ("Benefit Plan") maintained, sponsored, participated in or contributed to by Seller for the benefit of any Business Employee has been operated and administered in all material respects in accordance with its terms and Applicable Laws, including but not limited to ERISA and the Code. There is no current or pending investigation or audit by the Internal Revenue Service, the Department of Labor or any other Governmental Entity of any such Benefit Plan. There are no actions, suits or claims pending (other than routine claims for benefits) or, to the Knowledge of Seller, threatened with respect to any such Benefit Plan or against the assets of any such Benefit Plan.

3.13. Insurance. Schedule 3.13 sets forth a description (including without limitation the issuers of and the amounts of coverage) of (a) all insurance policies which are owned or maintained by Seller or its Affiliates with respect to the Specified Assets or the Business and (b) all insurance certificates issued on Seller's behalf or at Seller's request with respect to the Business. All of such insurance policies are in full force and effect, and all premiums therefore payable for periods prior to the Closing Date have been fully paid. Except as set forth in Schedule 3.13, no notice of cancellation of, or indication of an intention not to renew, any such insurance policy has been received by Seller.

3.14. Environmental Matters. Except as set forth in Schedule 3.14, (a) Seller has obtained all Environmental Permits that have been or are required in connection with the Business, (b) Seller has been, and Seller is, in substantial compliance with all terms and conditions of all requirements of Environmental Law and Environmental Permits applicable to or required in connection with the Business, (c) Seller has not received any written notice from a Governmental Entity of any actual or alleged violation or liability arising under any requirements of such Environmental Law or Environmental Permits, (d) no Environmental Claims are threatened or are presently pending against Seller relating to the Specified Assets or to present or past operations of the Business and (e) to the Knowledge of Seller no condition or set of facts or circumstances exists that could reasonably be expected to give rise to an Environmental Claim against Seller or Buyer relating to the Specified Assets or to present or past operations of the Business. To Seller's Knowledge (including Knowledge after having made diligent inquiry) and except as set forth in Schedule 3.14, Seller has identified and made available to Buyer every environmental investigation, study, audit, test and other analysis conducted by or for or in the possession of Seller or the Business in relation to the Specified Assets, the Business, or any existing or potential Environmental Claim or liability under Environmental Law with respect to the Business or the Specified Assets.

3.15. Condition of Assets. With respect to the physical condition and location of the tangible Specified Assets, the tangible Specified Assets are being sold on an "AS IS WHERE IS" basis.

3.16. Accurate and Complete Records; Customer Information. Copies of the books, ledgers, and financial records of the Business for the period of time which is not less than three years prior to the Effective Date or any such longer period of maintenance or retention as may be required by Applicable Laws have been made available or provided to Buyer. Without limiting the generality of the foregoing, copies of all material written information and documentation in

Seller's possession or under Seller's control relating to the Specified Contracts with Customers or the Business (collectively, "Customer Information") have been made available to or provided to Buyer; and such Customer Information is accurate and complete and does not contain any material discrepancies.

3.17. Brokerage Arrangements. Seller has not entered (directly or indirectly) into any agreement with any person, firm or corporation that would obligate Buyer to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated herein.

3.18. No Misleading Statements. The representations and warranties of Seller contained in this Agreement, the Schedules and all other certificates and documents delivered at the Closing to Buyer and its representatives in connection with the transactions contemplated by this Agreement do not and will not include any untrue statement of a material fact and do not and will not omit to state any material fact necessary to make the statements made not misleading.

3.19. Sufficiency of Properties, Assets and Employees. Except as set forth in Schedule 3.19, the Specified Assets and the Business Employees constitute substantially all of the properties, assets, rights, interests and employees which are used in, and are necessary for, the operation of the Business as it is conducted on the Effective Date and on the Closing Date. Notwithstanding the above, Buyer acknowledges that the Business Employees do not perform Seller's corporate functions. As of the Closing Date, there are no Persons other than Seller who own or hold any right, title or interest in or to the Specified Assets or the Business.

3.20. Compliance With Laws. Seller is in compliance with all Applicable Laws with respect to the Business, except as disclosed on Schedule 3.20.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Seller as follows:

4.1. Organization. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with corporate power to carry on its business as now being conducted.

4.2. Power and Authority; Enforceability. Buyer has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by Buyer in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by Buyer in connection with the consummation of the transaction contemplated hereby have been duly authorized, executed and delivered on behalf of Buyer and, assuming due authorization, execution and delivery by Seller, constitutes a legal, valid and binding obligation of Buyer enforceable in accordance with its terms, except that (a) such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefore may be brought.

4.3. No Conflict. The execution, delivery and performance of this Agreement by Buyer does not and will not (a) violate or breach the certificate of incorporation or by-laws of Buyer, (b) violate or breach any Applicable Law binding upon Buyer, or (c) result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to any other Person any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any Encumbrance on any of the assets or properties of Buyer pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, Permit, franchise or other instrument relating to such assets or properties to which Buyer is a party or by which any of such assets or properties is bound or affected.

4.4. Consents, Approvals and Permits. No consent, approval, authorization, license, order, or permit of, or declaration, filing, or registration with, or notification to, any Governmental Entity, or any other Person, is required to be made or obtained by Buyer or any of its Affiliates in connection with the execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated hereby, and (b) as may be necessary as a result of any facts or circumstances relating solely to Seller.

4.5. Financing. Buyer has available sufficient funds to consummate the transactions contemplated hereby, including payments under Article II hereof to be made at the Closing.

ARTICLE V CLOSING

5.1. Closing. The closing (the "Closing") shall be held on February 21, 2006 at Buyer's offices in Vienna, VA, at 10:00 a.m. (EST), or at such other place and time, or on such other date, as the parties may agree.

5.2. Deliveries by Seller at Closing. At the Closing, Seller will deliver the following documents to Buyer, each in form and substance reasonably satisfactory to Buyer:

(a) A certificate executed on behalf of Seller by the president, senior vice president, or vice president of Seller, dated the Closing Date, representing and certifying as to the matters set forth in Sections 9.1 and 9.2.

(b) The certificates, instruments, and documents listed below, each in form and substance reasonably satisfactory to Buyer.

(i) Assignments (including with respect to the Trademark, an assignment duly executed by Seller's Affiliate Fosmart, Inc.), bills of sale, certificates of title, documents and other instruments of transfer and conveyance of the Specified Assets to be transferred, each dated as of the Closing Date and in form and substance reasonably satisfactory to Buyer and sufficient to vest in Buyer good and marketable title to the Specified Assets to be transferred, free and clear of all Encumbrances, including a Bill of Sale, Assignment and Assumption Agreement.

(ii) All books and records of Seller to the extent related to the Specified Assets and Specified Liabilities to be transferred and assumed, respectively, and all Customer Information existing as of the Closing to the extent not delivered to Buyer prior to Closing.

(iii) Evidence of Seller's Consents and Approvals which have been obtained regarding the Specified Assets and Specified Liabilities to be transferred and assumed, respectively.

(iv) Such other certificates, instruments of conveyance, and documents as may be reasonably requested by Buyer prior to the Closing Date to carry out the intent and purposes of this Agreement.

(v) Documentation reasonably satisfactory to Buyer that Seller's banks have released any Encumbrances relating to or arising out of Seller's Credit Agreement in, to or with respect to the Specified Assets.

(c) An original counterpart of the Noncompetition Agreement dated the Closing Date fully executed by Seller.

(d) Evidence of Seller's Board of Directors' resolutions authorizing Seller's execution, delivery and performance of this Agreement and the transactions contemplated herein.

5.3. Deliveries by Buyer at Closing. At the Closing, Buyer will deliver the following to Seller, each in form and substance reasonably satisfactory to Seller:

(a) The Estimated Total Consideration payable to Seller pursuant to Section 2.4(b), wired in immediately available funds to an account designated by Seller as set forth in Section 2.4(b).

(b) A certificate executed by the president, senior vice president or vice president of Buyer, dated the Closing Date, representing and certifying as to the matters set forth in Sections 8.1 and 8.2.

(c) Evidence of the Consents and Approvals regarding the Specified Assets and Specified Liabilities to be transferred and assumed, respectively.

(d) Such other certificates, instruments, and documents as may be reasonably requested by Seller prior to the Closing Date to carry out the intent and purposes of this Agreement.

(e) An original counterpart of the Noncompetition Agreement dated the Closing Date fully executed by Buyer.

(f) A Bill of Sale, Assignment and Assumption Agreement wherein Buyer agrees to assume and duly perform all Specified Liabilities.

(g) Evidence of Buyer's Board of Directors' resolutions authorizing Buyer's execution, delivery and performance of this Agreement and the transactions contemplated herein.

ARTICLE VI
ACTIONS PRIOR TO CLOSING

6.1. Conduct and Preservation of Business. During the period from the Effective Date to the Closing Date, except as provided in Section 6.2, Seller shall conduct its operations with respect to the Specified Assets and the Specified Liabilities according to its ordinary course of business consistent with past practice (including the performance of Seller's obligations under the Specified Contracts) and in compliance with all Applicable Laws, except as set forth in Schedule 6.1, and shall take all actions reasonably necessary to preserve, maintain, and protect its assets, rights, and properties with respect to the Specified Assets and the Specified Liabilities.

6.2. Restrictions on Certain Actions. Without limiting the generality of Section 6.1, prior to the Closing Date Seller shall not, without the prior written consent of Buyer:

(a) Except with respect to Encumbrances in Seller's inventory and receivables created pursuant to Seller's Credit Agreement, mortgage, or pledge any of the Specified Assets, tangible or intangible, or create or suffer to exist any material lien thereupon;

(b) Other than within the ordinary course of business, acquire any assets for or relating to the Business, or sell, lease, transfer, or otherwise dispose of, directly or indirectly, any Specified Assets;

(c) terminate, amend, modify, or change any Specified Contract or enter into any additional contract other than in the ordinary course of business;

(d) settle or resolve any pending or threatened Proceeding, unless such settlement or resolution creates no current or future obligation or Encumbrance with respect to the Specified Assets;

(e) other than in the ordinary course of business, agree to any of the foregoing.

In addition to the consent required from Buyer as set forth above, Seller agrees, with respect to the actions described in clause (c) above, to notify Buyer in writing at the earliest practicable date in the event Seller desires to undertake any such action or in the event any such action is necessary for the preservation and/or conduct of the Business, which notice in each case shall include a reasonably detailed description of the action desired by Seller.

ARTICLE VII
ADDITIONAL AGREEMENTS

7.1. Cooperation. For a period of sixty (60) months commencing on the Effective Date, each party agrees that it will cooperate with and make available to the other party during normal business hours, all books and records, information (including Customer Information),

information technology systems and other facilities, and employees (to the extent such employees are available without substantial disruption of employment) of or relating to the Business retained and remaining in existence after the Closing Date which are necessary or useful in connection with (i) any Tax inquiry, audit, investigation, or dispute, (ii) any Proceeding or audit by a Governmental Entity, or (iii) any other matter requiring any such books and records, information, or employees for any reasonable business purpose, including to allow Buyer or Seller to make inspections as reasonably required. The party requesting any such books and records, information (including Customer Information), or employees shall (x) bear all of the out-of-pocket costs and expenses (including attorneys' fees and reimbursement for the salaries and employee benefits for those employees who are made available) reasonably incurred in connection with providing such books and records, information (including Customer Information), or employees, except that Seller shall bear all such out-of-pocket costs and expenses incurred by Seller, and shall reimburse all such out-of-pocket costs and expenses incurred by Buyer promptly on demand, with respect to the investigation of any complaint or dispute initiated by any Customer or former Customer with respect to activities of Seller or the Business prior to the Closing and Buyer shall bear all such out-of-pocket costs and expenses incurred by Buyer, and shall reimburse all such out-of-pocket costs and expenses incurred by Seller promptly on demand, with respect to the investigation of any complaint or dispute initiated by any Customer with respect to activities of Buyer or the Business after the Closing; and (y) hold in strict confidence and shall not disclose to any Person any Confidential Information in accordance with Section 7.9. For a period commencing on the Closing Date and continuing as provided in Buyer's document retention policy then in effect, Buyer agrees to maintain books and records transferred by Seller as part of the Specified Assets; provided, however, that if Buyer elects to destroy such books and records less than five (5) years after the Closing Date, Buyer shall notify Seller of such election, and Seller shall have ten (10) Business Days to request from Buyer a copy of such books and records, to be provided by Buyer at Seller's expense.

7.2. Regulatory Issues and Other Authorizations and Consents.

(a) Filings. Each party shall use all commercially reasonable efforts to obtain all authorizations, consents, orders, and approvals of, and to give all notices to and make all filings with, all Governmental Entities and other Persons that may be or become necessary for its execution and delivery of, and the performance of its obligations under this Agreement and will cooperate fully with the other party in promptly seeking to obtain all such authorizations, consents, orders, and approvals, giving such notices, and making such filings; provided that (i) promptly following execution of this Agreement, Seller shall take the initiative to obtain consents for assignment of Specified Contracts, but Seller shall not be required to incur any material cost or liability to obtain any such consents; (ii) Buyer shall not be required to incur any material cost or liability with respect to any of Seller's Consents and Approvals and (iii) Seller shall not be required to incur any material cost or liability with respect to any of Buyer's Consents and Approvals. To the extent required by Applicable Laws, each party shall, in each case after review of such filing or information (as the case may be) by the other party hereto, (x) file or cause to be filed with the appropriate Governmental Entities, as promptly as practicable but in no event later than the fifth Business Day after the Effective Date, all reports, applications and other documents required to be filed by such party under Applicable Laws concerning the transactions contemplated hereby and (y) promptly

comply with or cause to be complied with any requests by such Governmental Entities for additional information concerning such transactions, in each case so that any such authorization, consent, order or approval shall be granted as soon as practicable after the Effective Date. In the event (i) any filing described in the immediately preceding sentence is made without prior review by the non-filing party, or (ii) any such filing made is not one of Seller's Consents and Approvals (if the filing is made by Seller) or one of Buyer's Consents and Approvals (if the filing is made by Buyer) the party making such filing shall reimburse the non-filing party promptly on demand all out-of-pocket costs and expenses (including attorneys' fees) reasonably incurred by the non-filing party in connection with monitoring such filing and any Proceeding related thereto (including, if deemed necessary or appropriate by the non-filing party, intervening with respect to such Proceeding).

(b) Third Party Consents. Each party shall use its commercially reasonable efforts (but shall not be required to incur any material cost or liabilities) to assist the other party in obtaining any consent of third parties necessary or advisable in connection with the transactions contemplated by this Agreement. Without limiting the generality of the foregoing, Seller shall use commercially reasonable efforts to assist Buyer in obtaining any Permits necessary or advisable to assign to Buyer the Specified Contracts and otherwise to consummate the transactions contemplated hereby.

7.3. Public Announcements. Seller and Buyer agree that after the Effective Date, each party shall have the right to issue a press release with respect to this Agreement and the transactions contemplated hereby substantially in the form of Exhibit B. Thereafter Buyer and Seller and their respective Affiliates shall have the right from time to time to issue any press release or make any public statement regarding the transactions contemplated hereby, subject (in each case where the content of such the press release or public statement is not substantially in the form of Exhibit B) to the prior approval of the other party except as may be, in the sole judgment of the party desiring disclosure, required or appropriate under Applicable Law.

7.4. Amendment of Schedules. Each party agrees that, with respect to the representations and warranties of such party contained in this Agreement, such party shall have the continuing obligation until the Closing to supplement or amend promptly the Schedules with respect to any matter hereafter arising or discovered which, if existing or known as the date of this Agreement, would have been required to be set forth or described in the Schedules; provided, however, that for the purposes of determining whether the Closing Conditions have been fulfilled, the Schedules shall be deemed to include only that information contained therein on the Effective Date and shall be deemed to exclude all information contained in any supplement or amendment thereto.

7.5. Fees and Expenses. Except as otherwise expressly provided in this Agreement, all fees and expenses, including fees and expenses of counsel, financial advisors, and accountants incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such fee or expense, whether or not the Closing shall have occurred.

7.6. Transfer Taxes. All sales, use, transfer, filing, recordation, registration and similar Taxes and fees arising from or associated with the transactions contemplated hereunder,

whether levied on Buyer or Seller shall be borne by Buyer. Seller and Buyer shall file all necessary documentation with respect to, and Buyer shall make all payments of, such Taxes and fees on a timely basis or, if Seller makes such payments, Buyer shall reimburse Seller within five (5) Business Days after receipt of notification from Seller. Within thirty (30) Business Days after Closing, Buyer shall provide to Seller appropriate state exemption certificates that may be applicable to the transactions contemplated hereunder.

7.7. Casualty Loss. Notwithstanding anything to the contrary in this Agreement, in the event of damage by fire or other casualty to the Specified Assets prior to Closing, this Agreement shall remain in full force and effect, there shall be no reduction in the Total Consideration and no failure of a condition to Closing shall be deemed to exist by virtue of such event if, in any such event Seller, at its option, (i) repairs such damage (which Seller shall have no obligation to do), (ii) collects (and when collected pays over to Buyer) any insurance claims related to such damage, or (iii) assigns to Buyer such insurance claims; provided, however, that if such loss has a Material Adverse Effect with respect to Seller or the Business, Buyer may elect, as its option, to terminate this Agreement. In the event Buyer elects not to terminate this Agreement as aforesaid, the foregoing provisions of this Section shall apply, and the Closing Date shall be delayed until the date on which all necessary operations have been restored in order that there is no longer a Material Adverse Effect with respect to Seller or the Business, but such date shall not be later than the relevant date set forth in Section 10.1(b).

7.8. Insurance. If any claims are made or losses occur prior to the Closing Date that relate solely to the Specified Assets and such claims, or the claims associated with such losses, may be made against or under the policies retained by Seller or its Affiliates after the Closing, then Seller shall use its reasonable commercial efforts so that Buyer can file, notice, and otherwise continue to pursue these claims pursuant to the terms of such policies. Seller and its Affiliates shall be reimbursed by Buyer (or otherwise indemnified and held harmless) for any losses or other costs incurred by Seller or its Affiliates (including by way of any reduction in, or loss of, available insurance to cover other insurable losses or associated expenses of Seller or its Affiliates) arising out of Buyer pursuing these claims under such policies.

7.9. Confidentiality.

(a) Seller has had access to, and has gained knowledge with respect to the Business and the Specified Assets, and relating to Buyer and its Affiliates, and the related trade secrets, financial results and information, processes and techniques, plans, research, designs, concepts, methods of doing business and information concerning customers and suppliers, and other valuable and confidential information, which is not generally known to the public (the "Confidential Information"). Seller and Buyer acknowledge that unauthorized disclosure or misuse of the Confidential Information following the date of this Agreement may cause irreparable damage to Buyer. Accordingly, for a period of four (4) years commencing on the Effective Date, Seller agrees to hold in strict confidence and not disclose to any Person any Confidential Information obtained by Seller while Seller was conducting the Business or while Seller owned any of the Specified Assets.

(b) Nothing in this Section 7.9 shall prevent Seller from using or disclosing any such Confidential Information as counsel to Seller advises should be used or disclosed in connection with litigation or pursuant to Applicable Law or in the course of a defense of a claim assumed by Seller as an Indemnifying Party pursuant to Section 11.3 or, to the extent necessary, in the course of collecting any accounts receivable, or in connection with a Deferred Contract or as permitted under Section 7.3

(c) Seller agrees to indemnify and hold harmless Buyer and its representatives from and against any Claim arising out of any breach of their obligations under this Section 7.9. Seller and Buyer agree that because an award of money damages (whether pursuant to the foregoing sentence or otherwise) would be inadequate for any breach of this Section 7.9, any such breach would cause Buyer irreparable harm. Seller also agrees that in the event of any breach or threatened breach of this Section 7.9, Buyer will also be entitled, without the requirement of posting a bond or other security, to equitable relief, including injunctive relief and specific performance. The Claim procedures set forth in Section 11.3 shall apply with respect to any indemnification sought pursuant to this section. If buyer asserts a Claim against Seller under this Section 7.9(c), the prevailing party shall be entitled to recover its legal fees and costs from the other party.

7.10. Consents. Without limiting Seller's and Buyer's respective rights pursuant to Articles VIII or IX with respect to Seller's or Buyer's obligations to close, in the event Seller or Buyer, as applicable, waives its rights under Sections 8.3 or 9.3, respectively, and Seller and Buyer elect to proceed with the Closing notwithstanding the fact that not all Consents and Approvals have been obtained, the parties further agree that Seller shall retain, until such time as all Consents or Approvals shall have been obtained, all rights to and liabilities under any Specified Contract to which any required consent or approval listed on Schedule 3.4 pertains if such consent or approval has not been obtained prior to Closing (the "Deferred Contract"). Until the assignment of the Deferred Contract, (a) Buyer shall continue to use all commercially reasonable efforts and Seller shall fully cooperate with Buyer to obtain all required consents or approvals to remove any other impediments to such assignment, and (b) Seller shall cooperate with Buyer (and Buyer shall cooperate with Seller) in any arrangement to provide (to the extent permitted without breach of such Deferred Contract or Applicable Law) Buyer with the benefits and burdens of such Deferred Contract after the Closing Date to the same extent as if such Deferred Contract had been assigned to Buyer (such arrangement, an "Alternative Arrangement"). Seller and Buyer shall agree in good faith as to the terms of such Alternative Arrangement, which arrangement may consist of an arrangement pursuant to which Seller subcontracts Buyer to perform under the Deferred Contracts, substantially in the form of the Subcontract attached hereto as Exhibit C. If, subsequent to the Closing, Seller shall obtain all required consents or approvals required to assign any Deferred Contract, the Deferred Contract for which consent or approval to assign has been obtained shall at that time be deemed to be conveyed, granted, bargained, sold, transferred, setover, assigned, released, delivered and confirmed to Buyer and assumed by Buyer, without need of further action by Seller or of further documentation except for notice from Seller to Buyer that such consent or approval has been obtained; and from and after the effective date such Deferred Contract is assigned to Buyer, (x) no party shall have any further liability under the Alternative Arrangement related thereto, and (y) the Deferred Contract shall be deemed to be a Specified Asset and Specified Liability. Seller's obligations pursuant to the Non-competition Agreement with respect to any Deferred

Contract shall be of no effect unless and until Buyer has assumed the benefits and burdens of such Deferred Contract pursuant to an Alternative Arrangement or until its assignment.

7.11. Maintenance of Guaranties and Insurance. Seller agrees that from the Effective Date and until the earlier to occur of (a) the Closing and (b) the termination of this Agreement, Seller agrees (i) to keep its insurance policies described in Schedule 3.13 in force and (ii) not to cancel, and will cause its Affiliates not to cancel, any of Seller's insurance policies without the prior written consent of Buyer. Seller shall cause any and all guaranties of any Affiliate or any other party on behalf of Seller, any insurance coverage or bid, payment or performance bond, with regard to the Business to be and remain unchanged and in full force and effect.

7.12. Employees.

(a) Promptly after the execution hereof by each of the parties, Buyer will offer employment, to be effective on the day immediately succeeding the Closing Date, to the Business Employees (as listed on Schedule 3.12 (A)). Not fewer than five (5) Business Days prior to the Closing Date, Buyer will provide Seller with a list of Business Employees who have accepted such offer of employment from Buyer as of that date. Effective on the Closing Date, Seller will terminate the employment of all such Business Employees who have accepted Buyer's offer of employment, and Buyer will hire those Business Employees who report to work on the day immediately succeeding the Closing Date (such Business Employees, the "Hired Business Employees"). Buyer, in its sole discretion, shall set the terms and conditions of employment for any Hired Business Employees, including but not limited to employee benefits. To the extent permissible under Buyer's Benefit Plans, Buyer will offer each Hired Business Employee credit for years of service with Seller, in accordance with the terms of, and subject to the limitations under, Buyer's Benefit Plans.

(b) Seller shall be solely liable for any costs or liabilities incurred in connection with Seller's continued employment or termination of Seller's employees, including any Business Employees who do not accept Buyer's offer of employment, and in connection with the termination by Seller of the employment of those Business Employees who have accepted Buyer's offer of employment, including liabilities for incentive compensation, bonus, severance and other benefits. Buyer shall be solely liable for any costs or liabilities incurred in connection with the employment or termination of Hired Business Employees, including liabilities for severance and other benefits, from the day the Hired Business Employees are hired by Buyer. Seller shall be fully and solely responsible for any costs, expenses, obligations and liabilities, vested or non-vested, arising out of the pension or retirement obligations attributable to the Seller's employees relating to the period ending on or prior to the Closing Date. Seller agrees to indemnify, defend and hold Buyer Indemnified Parties harmless from and against all direct or indirect costs, expenses or liabilities arising from or relating to claims made by or on behalf of the Seller's employees with respect to termination of employment by reason of the transactions contemplated by this Agreement, including, but not limited to, any claims for improper termination or severance payments. Seller agrees to indemnify defend and hold Buyer Indemnified Parties harmless from and against, and Buyer agrees to indemnify, defend and hold Seller Indemnified Parties harmless from and against, any

and all Claims arising out of the other party's employment practices that are contrary to Applicable Law (including any unlawful practices by Buyer which result in Buyer's failure to hire any Business Employee).

(c) Seller or, where applicable, Seller's appropriate employee benefit plans shall be liable for any claims incurred by the Hired Business Employees and their beneficiaries through the Closing Date under Seller's employee benefit plans. Buyer or, where applicable, Buyer's appropriate employee benefit plans, shall be liable for any claims incurred by the Hired Business Employees and their beneficiaries after the Closing Date under Buyer's employee benefit plans. For purposes of this Section 7.12(c), a claim will be deemed incurred in accordance with the applicable rules under each of Seller's and Buyer's benefit plans.

(d) Subject to the provisions of this Section 7.12, the Hired Business Employees shall be eligible to participate in Buyer's medical and other welfare plans, as defined in Section 3(1) of ERISA ("Buyer Benefit Plans"), in accordance with the terms of such plans.

(e) Buyer shall be solely liable for any and all claims for severance with respect to Hired Business Employees arising out of the termination of a Hired Business Employee by Buyer.

(f) Seller and Buyer hereby agree to utilize the "Standard Procedure" set forth in Revenue Procedure 2004-53, 2004-34 IRB 320, or a corresponding future revenue procedure or other administrative pronouncement, with regard to the reporting requirements attributable to wages paid or to be paid to Business Employees.

(g) No Hired Business Employee including any beneficiary or dependent thereof, or any other Person not a party to this Agreement, shall be entitled to assert any claim hereunder.

(h) Except as otherwise provided in this Section 7.12 or in Article XI, where this Section 7.12 requires a party to take any action or perform any task, the party obligated to take such action or perform such task shall be responsible for all fees, costs and other expenses incurred for, and related to, such actions or tasks.

(i) For a period not to exceed thirty (30) days from the Closing Date, Seller shall have the right to use a portion of the office located in the city of San Diego, California, located at 1660 Hotel Circle North, for one (1) of its employees, in exchange for the payment of the sum of Five Hundred and No/100 Dollars (\$500) per month, provided, however, that rent for partial months shall be prorated per the number of days in which such office was used. Either party shall have the right to terminate, in whole or in part, its use of such offices upon ten (10) days advance written notice to the other party, provided, however, that Buyer shall have the right to terminate such lease only in the event Seller's employee's presence or behavior becomes detrimental to Buyer's activities, as determined in Buyer's reasonable judgment.

(j) Within thirty (30) days from the Closing Date, Buyer shall remove certain inventory and forms, included within the Specified Assets, currently located in Seller's plant in Hillsboro, Texas.

7.13. Seller's Warranty Work. At Seller's request and for a period of no more than five (5) years commencing on the Closing Date, Buyer agrees to perform Seller's warranty work arising out of Seller's conduct of the Business prior to the Closing, subject to the conditions set forth below. Seller shall deliver to Buyer a notice describing in reasonable detail the warranty work to be performed by Buyer, which notice shall be delivered to Buyer no later than fifteen (15) Business Days prior to the date any such work must be performed. In addition, Buyer's obligations to provide such Seller's warranty work are subject to (i) Buyer's other commitments and obligations (to be determined in Buyer's sole discretion), or (ii) availability of personnel and material, and shall be performed at Buyer's then prevailing prices, subject to site- or job-specific conditions that may affect pricing for such work.

7.14. Accounts Payable. Seller shall pay its Accounts Payable in accordance with Seller's normal and reasonable commercial practices. Subject to the final sentence of Section 2.8, if Buyer receives invoices, bills, statements of other claims that refer to goods and/or services supplied to Seller prior to the Closing Date, Buyer will promptly forward them to Seller, and Seller agrees to pay on a timely basis all such invoices, bills, statements and other claims forwarded by Buyer. Subject to the final sentence of Section 2.8, after the Closing Seller may receive invoices, bills, statements and other claims that refer to goods and/or services supplied to Buyer, Seller shall promptly forward them to Buyer, and Buyer agrees to pay on a timely basis all such invoices, bills, statements and other claims forwarded by Seller.

ARTICLE VIII CONDITIONS TO SELLER'S OBLIGATION TO CLOSE

The obligation of Seller to consummate the transactions contemplated by this Agreement is subject, at the option of Seller, to the satisfaction or waiver of the conditions described in Sections 8.1, 8.2, 8.3 and 8.4 (collectively, the "Seller's Closing Conditions").

8.1. Representations and Warranties True. All the representation and warranties of Buyer contained in this Agreement, and in any agreement, instrument, or document delivered pursuant hereto or in connection herewith on or prior to the Closing Date, shall be true and correct in all material respects on and as of the Closing Date as if made on and as of such date, (a) except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct as aforesaid as of such specified date, and (b) except in all cases where the failure of such representations and warranties to be true and correct would not, individually or in the aggregate, reasonably be expected to cause any Material Adverse Effect with respect to Buyer.

8.2. Covenants and Agreements Performed. Buyer shall have performed and complied with in all material respects all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date and all deliveries contemplated by Section 5.3 shall have been made.

8.3. Consents. All Consents and Approvals necessary for the assignment and transfer to Buyer of the Specified Assets and the assumption by Buyer of the Specified Liabilities to be transferred to and assumed by Buyer at the Closing shall have been obtained or made (and are effective), in form and substance reasonably satisfactory to Seller.

8.4. Legal Proceedings. No preliminary or permanent injunction or other order, decree, or ruling issued by a Governmental Entity, and no statute, rule, regulation, or executive order promulgated or enacted by a Governmental Entity since the Effective Date shall be in effect which restrains, enjoins, prohibits, or otherwise makes illegal the consummation of the transactions contemplated hereby.

ARTICLE IX CONDITIONS TO BUYER'S OBLIGATION TO CLOSE

The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject, at the option of Buyer, to the satisfaction or waiver of the conditions described in Sections 9.1, 9.2, 9.3 and 9.4 (collectively, the "Buyer's Closing Conditions").

9.1. Representations and Warranties True. All the representations and warranties of Seller contained in this Agreement, and in any agreement, instrument, or document delivered pursuant hereto or in connection herewith on or prior to the Closing Date, shall be true and correct in all material respects on and as of the Closing Date as if made on and as of such date, (a) except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct as aforesaid as of such specified date, and (b) except in all cases where the failure of such representations and warranties to be true and correct would not, individually or in the aggregate, reasonably be expected to cause a Material Adverse Effect with respect to Seller, the Business or the Specified Assets.

9.2. Covenants and Agreements Performed. Seller shall have performed and complied with in all material respects all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date, and all deliveries contemplated by Section 5.2 shall have been made.

9.3. Consents and Permits. All Consents and Approvals necessary for the assignment and transfer to Buyer of the Specified Assets to be transferred and the assumption by Buyer of the Specified Liabilities at the Closing shall have been obtained or made in each case in form and substance reasonably satisfactory to Buyer.

9.4. Legal Proceedings. No preliminary or permanent injunction or other order, decree or ruling issued by a Governmental Entity, and no statute, rule, regulation or executive order promulgated or enacted by a Governmental Entity since the Effective Date, shall be in effect which restrains, enjoins, prohibits, or otherwise makes illegal the consummation of the transactions contemplated hereby.

ARTICLE X TERMINATION

10.1. Termination. This Agreement may be terminated at any time prior to the Closing Date solely:

(a) by mutual consent of Seller and Buyer;

(b) by Seller or by Buyer, if the transactions contemplated by this Agreement to take place at the Closing shall not have been consummated by February 28, 2006, unless the failure of such transactions to be consummated is due to the willful failure of the party seeking to terminate this Agreement to perform any of its obligations under this Agreement to the extent required to be performed by it prior to or on the Closing Date;

(c) by Seller or by Buyer, if a material breach or default shall be made by the other party in the observance or in the due and timely performance of any of the covenants or agreements contained herein, and the curing of such default shall not have been made within ten days after written notice thereof is delivered to the breaching or defaulting party by the other party; or

(d) by Buyer pursuant to Section 7.7.

10.2. Effect of Termination. If a party terminates this Agreement under Section 10.1, then such party shall promptly give notice to the other party specifying the provision hereof pursuant to which such termination is made, and upon delivery of such notice this Agreement shall become void and have no effect; provided, that the agreements contained in this Article X, in Article XI and in Article XIII, and Sections 7.2(a), 7.4 and 7.8 shall survive the termination hereof.

10.3. Liabilities in Event of Termination. The termination of this Agreement will in no way limit any obligation or liability of any party based on or arising from a breach or default by such party with respect to any of its representations, warranties, covenants or agreements contained in this Agreement including, but not limited to, legal and audit costs and out-of-pocket expenses.

ARTICLE XI INDEMNITY AND SURVIVAL

11.1. Buyer's Indemnity. From and after the Closing, Buyer shall indemnify and hold harmless Seller, its Affiliates, and its respective officers, directors, shareholders, employees, agents, successors and permitted assigns ("Seller Indemnified Parties") from and against any claim, liability, loss, cost, damage or expense (including, without limitation, court costs and reasonable attorneys' fees and expenses) (a "Claim") arising out of or resulting from (a) the breach of, or the failure to perform or satisfy any of, the representations, warranties and covenants made by Buyer in this Agreement or in any certificate delivered in connection with this Agreement pursuant to Article V, (b) the Specified Liabilities, (c) any act, omission, occurrence, event, condition or circumstance first occurring at any time after the Closing Date and involving or related to the Specified Assets, the Specified Contracts or the Business, or (d) without limitation, any (i) violation or claimed violation of any Environmental Laws or Environmental Permits alleged by any party to the extent related in any way to Buyer's ownership, use or operation of the Specified Assets, or conditions of the Specified Assets

resulting therefrom after the Closing Date; (ii) Environmental Claim to the extent related in any way to the ownership, use, operation, or conditions of the Specified Assets after the Closing Date; or (iii) cleanup or remediation requirement or liability respecting a Release or threatened Release of any Hazardous Substances to the extent related to the Specified Assets and occurring after the Closing Date; provided, however that, the right of a Seller Indemnified Party to be indemnified for a Direct Claim under this Section 11.2(d) is limited to circumstances or events where Seller or any Seller Indemnified Party is required to undertake the activities giving rise to such Direct Claim in order to comply with an Environmental Law or, in Seller's reasonable judgment, to respond to an Environmental Claim; and Buyer shall reimburse Seller Indemnified Parties for any legal or other expenses reasonably incurred by Seller Indemnified Parties in connection with investigating or defending any such Claim which is the Claim of a third party as such expenses are incurred.

11.2. Seller's Indemnity. From and after the Closing, Seller shall indemnify and hold harmless Buyer, its Affiliates and its and their respective officers, directors, shareholders, employees, agents, successors and permitted assigns (the "Buyer Indemnified Parties") from and against any Claim arising out of or resulting from:

(a) the breach of, or the failure to perform or satisfy any of, the representations, warranties and covenants made by Seller in this Agreement or in any certificate delivered in connection with this Agreement pursuant to Article V;

(b) any of the Excluded Assets or the Excluded Liabilities;

(c) any (i) violation or claimed violation of any Environmental Laws or Environmental Permits alleged by any Person to the extent related in any way to Seller's ownership, use or operation of the Business or the Specified Assets, or condition of the Specified Assets resulting therefrom on or before the Closing Date; (ii) Environmental Claim to the extent related in any way to the ownership, use, operation, or conditions of the Business or the Specified Assets on or before the Closing Date; or (iii) cleanup or remediation requirement or liability respecting a Release or threatened Release of any Hazardous Substances to the extent related to the Specified Assets or to the Business and occurring on or before the Closing Date; provided, however that, the right of a Buyer Indemnified Party to be indemnified for a Direct Claim under this Section 11.2(c) is limited to circumstances or events where Buyer or any Buyer Indemnified Party is required to undertake the activities giving rise to such Direct Claim in order to comply with an Environmental Law or, in Buyer's reasonable judgment, to respond to an Environmental Claim;

(d) any Taxes for which Seller is liable under Article XII or any breach of, failure to perform or satisfy any of the representations, warranties or covenants made by Seller involving or related to Tax matters; and

(e) all matters disclosed on Schedule 3.8, 3.10(B) and 3.20 (including without limitation any liability arising out of Seller's performance of the SR-60 Memorial Interchange Project (Seller's Project Reference No. G60035)).

Seller shall reimburse Buyer Indemnified Parties for any legal or other expenses incurred by Buyer Indemnified Parties in connection with investigating or defending any such Claim which is the Claim of a third party as such expenses are incurred.

11.3. Claim Notice.

(a) Indemnified Parties. As used in this Article, the term "Indemnified Party" shall mean any Seller Indemnified Party or any Buyer Indemnified Party, as the case may be, which is asserting a claim for indemnity hereunder. Any party against whom a claim for indemnification is asserted by an Indemnified Party pursuant to this Article is referred to herein as an "Indemnifying Party." In the event that any Claims are asserted against or sought to be collected from an Indemnified Party by a Person who is not a Buyer Indemnified Party or a Seller Indemnified Party (a "Third Party"), such Indemnified Party shall give prompt written notice to the Indemnifying Party of such event ("Claim Notice"). A Claim Notice shall specify, to the extent known by the Indemnified Party, the nature of and specific basis for any Claims or the nature of and specific basis of any suit, action, investigation or proceeding set forth therein and the amount or the good faith estimated amount thereof to the extent then practicable. Any failure on the part of any Indemnified Party promptly to provide a Claim Notice to the Indemnifying Party shall relieve the Indemnifying Party of such party's obligation under this Article only to the extent that the Indemnifying Party shall have been prejudiced by the lack of timely and adequate notice to the Indemnifying Party.

(b) Notice Required. The Indemnifying Party shall have thirty (30) days from the delivery or receipt of a Claim Notice ("Notice Period") to notify the Indemnified Party (i) whether or not it disputes the liability of the Indemnifying Party to the Indemnified Party hereunder with respect to the Claims identified in the Claim Notice, and (ii) whether or not it desires to assume the defense of the Third Party Claim identified in the Claim Notice; provided, however, that any Indemnified Party is hereby authorized during the Notice Period to file any motion, answer or other pleading that shall be necessary or appropriate to protect its interest or those of the Indemnifying Party. In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against the Claims identified in the Claims Notice, the Indemnifying Party shall have the right and obligation, at its sole cost and expense, to defend with counsel of its own choosing by all appropriate proceedings, which proceedings shall be properly and diligently settled or prosecuted to a final non-appealable order of a court of competent jurisdiction; provided, however, that (a) the Indemnified Party shall at all times have the right, at its sole option and expense, to employ separate counsel and to participate fully in the defense, compromise or settlement thereof, and (b) if the Indemnifying Party does not proceed diligently to defend the Claim within thirty (30) days after personal delivery or receipt of a Claim Notice, the Indemnified Party shall have the right, but not the obligation, to undertake the defense of any such Claim and the Indemnifying Party shall be bound by any defense or settlement that the Indemnified Party may make as to such Claim. Upon its assumption of the defense of any such Claim, the Indemnifying Party shall have full control of such defense and proceedings including any compromise or settlement thereof. If there is more than one Indemnifying Party, then all Indemnifying Parties must coordinate the defense of the

Indemnified Party against any Claims so as not adversely to affect the Indemnified Party's right to a proper defense.

(c) Cooperation. The parties agree reasonably to cooperate with one another and their respective counsel in contesting and defending any Claim by a Third Party (including granting reasonable access to the pertinent books, records and personnel (to the extent such personnel are available) in their possession or control) or, if appropriate and related to the Claim in question, in making (i) any counterclaim against the Third Party asserting the Claims, or (ii) any cross complaint against any Person.

(d) No Settlement. Notwithstanding anything in this Section to the contrary, the Indemnifying Party shall not, without the written consent of the Indemnified Party (i) settle or compromise any Claim or consent to the entry of any judgment with respect to such Claim that does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnified Party of a written release from all liability in respect to such Claim, (ii) settle or compromise any Claim in any manner that may materially and adversely affect the Indemnified Party, or (iii) settle or compromise any Claim in a manner that will require the Indemnified Party to pay any money.

(e) Rights of Indemnified Party to Defend. If the Indemnifying Party fails to notify the Indemnified Party within the Notice Period that the Indemnifying Party elects to defend the Indemnified Party pursuant to Section 11.3(b), or if the Indemnifying Party elects to defend the Indemnified Party pursuant to Section 11.3(b), but fails diligently and promptly to prosecute, defend or settle any Claim by a Third Party, then the Indemnified Party shall have the right to defend, or compromise and settle at the sole cost and expense of the Indemnifying Party, such Claim by a Third Party by all appropriate proceedings, which proceedings may be prosecuted by the Indemnified Party to a final non-appealable order of a court of competent jurisdiction or settled without the consent of the Indemnifying Party. The Indemnified Party shall have full control of such defense and proceedings.

(f) Direct Claims. In the event any Indemnified Party should have a Claim against any Indemnifying Party hereunder that does not involve damages being asserted against or sought to be collected from it by a Third Party, the Indemnified Party shall send a Claim Notice containing the same type of information required by Section 11.3(a) with respect to such Claim to the Indemnifying Party. If the Indemnifying Party does not notify the Indemnified Party within the Notice Period that it disputes such Claim, the amount of such damages shall be conclusively deemed a liability of the Indemnifying Party hereunder.

11.4. DAMAGES. THE PARTIES AGREE THAT SUBJECT TO THE SECOND SENTENCE OF THIS SECTION, IT IS THEIR INTENT THAT NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT, NEITHER SELLER NOR BUYER SHALL BE LIABLE TO ANY OTHER PARTY HERETO OR TO ITS AFFILIATES, OR ITS OR THEIR OFFICERS, DIRECTORS, SHAREHOLDERS SUCCESSORS OR PERMITTED ASSIGNS, FOR CLAIMS FOR CONSEQUENTIAL, SPECIAL, TREBLE, EXEMPLARY, INCIDENTAL, INDIRECT OR PUNITIVE DAMAGES

OF ANY NATURE UNDER OR PURSUANT TO THIS AGREEMENT OR IN CONNECTION WITH OR RESULTING FROM THE TRANSACTIONS CONTEMPLATED HEREBY, INCLUDING CLAIMS IN THE NATURE OF LOSS OF VALUE (INCLUDING, WITHOUT LIMITATION, ADVERSE EFFECTS ON CASH FLOW OR EARNINGS) IRRESPECTIVE OF WHETHER SUCH CLAIMS ARE BASED UPON NEGLIGENCE, STRICT LIABILITY, CONTRACT, OPERATION OF LAW OR OTHERWISE. NOTWITHSTANDING THE FOREGOING, IT IS SPECIFICALLY INTENDED BY THE PARTIES THAT AN INDEMNIFIED PARTY SHALL BE ENTITLED TO INDEMNIFICATION BY THE INDEMNIFYING PARTY PURSUANT TO THIS ARTICLE FOR ANY AND ALL CONSEQUENTIAL, SPECIAL, TREBLE, EXEMPLARY, INCIDENTAL, INDIRECT OR PUNITIVE DAMAGES INCLUDED IN, ARISING OUT OF OR RESULTING FROM ANY CLAIMS ASSERTED AGAINST OR SOUGHT TO BE COLLECTED FROM ANY INDEMNIFIED PARTY BY A THIRD PARTY.

11.5. Survival and Time Limitation. All of the representations, warranties, covenants, obligations and agreements of the parties set forth in this Agreement shall survive the Closing. Except as provided in the following sentence, any assertion by any Indemnified Party that an Indemnifying Party is liable for indemnification under the terms of this Agreement must be made in writing and must be given to the Indemnifying Party on or prior to the date that is thirty-six (36) months after the Closing Date. Claims asserted by any Buyer Indemnified Party pursuant to Section 11.2(b), 11.2(c), or 11.2(e), or Claims asserted by any Seller Indemnified Party pursuant to Sections 11.1(b), 11.1(c) or Section 11.1(d) may be brought at any time, irrespective of any limits otherwise imposed by contract or under Applicable Law; Claims asserted by any Buyer Indemnified Party pursuant to Section 11.2(d) may be brought at any time prior to ninety (90) days after the date on which the applicable statute of limitations expires with respect to such matter and Seller hereby agrees not to assert as a defense any statute of limitations, statute of repose, laches or other defense.

11.6. Limitation on Indemnity. Notwithstanding any other provision of this Agreement to the contrary or otherwise, Buyer acknowledges and agrees that Seller shall not be liable to Buyer in respect of any indemnification hereunder until and except to the extent the amount of Claims of the Buyer Indemnified Parties under this Agreement (other than Claims (i) asserted pursuant to Sections 2.4, 2.5, 2.6, 2.8, 7.1, 7.14 or payment obligations to Buyer under an Alternative Arrangement, (ii) asserted pursuant to Section 12.1(a) or (iii) arising out of Seller's fraud or willful misconduct, for which the following deductible shall not apply), individually or in the aggregate, exceeds One Hundred Thousand and No/100 Dollars (\$100,000). Notwithstanding any other provision of this Agreement to the contrary or otherwise, Seller acknowledges and agrees that Buyer shall not be liable to Seller in respect of any indemnification hereunder until and except to the extent the amount of Claims of the Seller Indemnified Parties under this Agreement (other than Claims (i) asserted pursuant to Sections 2.4, 2.5, 2.6, 2.8, 7.1, 7.14 or payment obligations to Seller under an Alternative Arrangement, or (ii) arising out of Buyer's fraud or willful misconduct, for which the following deductible shall not apply), individually or in the aggregate, exceeds Fifty Thousand and No/100 Dollars (\$50,000).

11.7. Sole Remedy. Except for the remedies of specific performance, injunctive relief and other equitable rights and remedies expressly permitted or allowed pursuant to the other

provisions of this Agreement, the respective indemnification and rights to recover provided in this Article XI shall be the sole and exclusive remedy for any and all damages, liabilities, losses, loss of value, claims, deficiencies, penalties, interest, expenses, fines assessments, charges and costs, including without limitation attorneys fees and court cost, resulting from, arising out of or in any way connected with or based on this Agreement or the sale of the Specified Assets to Buyer, including any breaches of or inaccuracies in any representation or warranty contained in this Agreement or any certificates delivered pursuant to Article V or any breach, non-fulfillment or default in the performance of any of the covenants or agreements contained in this Agreement; provided, however, that this section shall not in anyway limit, impair or otherwise affect the rights and remedies of the parties (a) for breach of the confidentiality obligations set forth in Section 7.9 of this Agreement, (b) in the event of a breach or default under the Noncompetition Agreement or (c) in the event of fraud or willful misconduct.

ARTICLE XII
TAX MATTERS

12.1. Liability for Taxes.

(a) Seller's Liability. Seller shall be solely liable for (i) any Taxes attributable to the Specified Assets or the Business, with respect to any taxable periods or portions thereof ending on or before the Closing Date (or the portion, as determined in accordance with Section 12.1(b), of any such Taxes attributable to the Specified Assets or the Business for taxable periods beginning before and ending after the Closing Date which is allocable to the portions of such period occurring on or before the Closing Date) (the "Pre-Closing Date Period"), and (ii) any Taxes attributable to a breach by Seller of any representation, warranty, or covenant with respect to Taxes in this Agreement.

(b) Pre-Closing Date Period Allocation. Whenever it is necessary for purposes of Section 12.1(a) to determine the portion of any Taxes attributable to the Specified Assets or the Business for a taxable period beginning before and ending after the Closing Date, which is allocable to the Pre-Closing Date Period, the determination shall be made, in the case of property or ad valorem taxes, on a per diem basis and, in the case of other Taxes, by assuming that the Pre-Closing Date Period constitutes a separate taxable period and by taking into account actual taxable events occurring during such period (except that exemptions, allowances and deductions for a taxable period beginning before and ending after the Closing Date that are calculated on an annual or periodic basis, such as the deduction for depreciation, shall be apportioned to the Pre-Closing Date Period ratably on a per diem basis).

12.2. Audits or Assessments. Buyer shall promptly notify Seller in writing upon receipt by Buyer of notice of any pending or threatened tax audits or assessments that could reasonably affect the tax liabilities for which Seller would be liable under Section 12.1(a) ("Seller Tax Matter"). Notwithstanding anything to the contrary set forth in this Agreement, Seller shall have the sole right to represent the interests of Seller in connection with any Seller Tax Matter (including the right to choose Seller's representation in any audit, contest or administrative or judicial proceeding involving a Seller Tax Matter, the right to choose the manner in which Seller contest any assessment or proposed disallowance or claim in any Seller Tax Matter and the right

to settle or otherwise compromise any Seller Tax Matter), but Buyer (a) shall have the right to participate therein and to approve any settlement that would affect any Tax liabilities of Buyer after the Closing Date and (b) shall have the right to participate jointly with Seller in any Seller Tax Matters that could give rise to any Tax liens on the assets of Buyer, or any of its Affiliates.

ARTICLE XIII
RESOLUTION OF DISPUTES

13.1. Agreement to Arbitrate. Any and all claims, counterclaims, demands, causes of action, disputes, controversies, and other matters in question arising out of or relating to this Agreement, or the alleged breach hereof, or in any way relating to the subject matter of this Agreement or the relationship between the parties created by this Agreement (all of which are referred to herein as "Disputes"), between the parties (each a "Disputing Party") shall be resolved by final and binding arbitration, regardless of whether such Disputes (a) allegedly are extra-contractual in nature, (b) sound in contract, tort, or otherwise, (c) are provided for by statute or otherwise, or (d) seek damages or any other relief, whether at law, in equity or otherwise; provided, however, that no Dispute shall be submitted to arbitration until sixty (60) days have passed (without mutual agreement having been reached) following receipt of the first written notice from a Disputing Party shall, if requested by the other Disputing Party that sets forth the subject matter of the Dispute and that states that it is being given pursuant to this Article XIII. During such 60-day period, each Disputing Party shall, if requested by the other Disputing Party, select and appoint a senior management representative to seek to reach mutual agreement with respect to the applicable Dispute. Each such appointment shall be made by the Disputing Party's giving of notice of the appointment to the other Disputing Party with ten (10) Business Days of receipt of the request for the appointment. The appointees shall meet and shall negotiate in good faith and endeavor to reach such mutual agreement as soon as practicable.

13.2. Appointment of Arbitrator. If no such mutual agreement has been reached within such 60-day period, then either Disputing Party may refer the claim to arbitration under the following provisions:

(a) To refer a Dispute to arbitration, a Disputing Party must provide notice to the American Arbitration Association ("AAA") and the other Disputing Party stating (i) a general description of the Dispute and (ii) that the Dispute is being referred to arbitration under this Article XIII.

(b) The arbitration tribunal shall consist of three arbitrators. Each Disputing Party shall appoint one arbitrator. If, on the 30th day following the notice described in Section 13.2(a), a Disputing Party has failed to appoint its arbitrator, then the AAA shall promptly appoint an arbitrator on such Disputing Party's behalf. Once two arbitrators have been appointed by or on behalf of the Disputing Parties, such appointed arbitrators shall jointly select and appoint the third arbitrator. If, on the 30th day following the date of appointment of the second arbitrator, the two appointed arbitrators have failed to jointly select and appoint the third arbitrator, then the AAA shall promptly appoint the third arbitrator.

13.3. Authority of the Arbitrators. The validity, construction, and interpretation of the agreement to arbitrate in this Article XIII, and all procedural aspects of the arbitration conducted pursuant to this agreement to arbitrate, including, but not limited to, the determination of the issues that are subject to arbitration (i.e., arbitrability), the scope of the arbitrable issues, allegations of "fraud in the inducement" to enter into this agreement to arbitrate, allegations of waiver, laches, delay or other defenses to arbitrability, and the rules governing the conduct of the arbitration (including the time for filing an answer, the time for the filing of counterclaims, the times for amending the pleadings, the specificity of the pleadings, the extent and scope of discovery, the issuance of subpoenas, the times for the designation of experts, whether the arbitration is to be stayed pending resolution of related litigation involving third parties not bound by this agreement to arbitrate, the receipt of evidence, and the like) shall be decided by the arbitrators. EXCEPT AS PROVIDED IN SECTION 11.4, THE ARBITRATORS SHALL HAVE ABSOLUTELY NO AUTHORITY TO AWARD CONSEQUENTIAL, SPECIAL, TREBLE, EXEMPLARY, INCIDENTAL, INDIRECT OR PUNITIVE DAMAGES OF ANY TYPE UNDER ANY CIRCUMSTANCES, REGARDLESS OF WHETHER SUCH DAMAGES MAY BE AVAILABLE UNDER APPLICABLE LAW. The arbitrators shall have the authority to assess the costs and expenses of the arbitration proceeding (including the arbitrators' fees and expenses) against one or both of the Disputing Parties in whatever manner or allocation the arbitrators deem appropriate, provided that each Disputing Party shall bear its own attorneys' fees, and the arbitrators shall have no authority to award attorneys' fees.

13.4. Place and Conduct of Arbitration. The arbitration proceeding shall be conducted in Harrisburg, PA. The arbitration shall be conducted by the arbitrators as expeditiously as possible. The arbitration shall be conducted under the Rules of Arbitration of the AAA Commercial Arbitration Rules and Procedures.

13.5. Payment and Finality of Award. Each Disputing Party against which the award or decision of the arbitrators (the "Award") assesses a monetary obligation shall pay that obligation on or before the 30th day following the Award or such other date as the Award may provide, which Award shall be payable in cash in US Dollars. The Award shall, as between the Disputing Parties and those in privity with them, be final and binding and entitled to all of the protections and benefits of a final judgment, e.g., res judicata (claim preclusion) and collateral estoppel (issue preclusion), as to all Disputes, including compulsory counterclaims, that were or could have been presented to the arbitrators. The Award shall not be reviewable by or appealable to any court.

13.6. Use of the Courts. It is the intent of the Parties that the arbitration proceeding shall be conducted expeditiously, without initial recourse to the courts and without interlocutory appeals of the arbitrators' decisions to the courts. However, if a Disputing Party refuses to honor its obligations under this agreement to arbitrate, the other Disputing Party may obtain appropriate relief compelling arbitration in any court having jurisdiction over the Disputing Parties; the order compelling arbitration shall require that the arbitration proceedings take place in Harrisburg, Pennsylvania, as specified above. The Disputing Parties may apply to any court having jurisdiction for orders requiring witnesses to obey subpoenas issued by the arbitrators. Moreover, any and all of the arbitrators' orders and decisions may be enforced if necessary by any court having jurisdiction. The Award may be confirmed in, and judgment upon the Award entered by, any court having jurisdiction.

13.7. Arbitration Provision Enforceable. A Disputing Party's breach of this Agreement shall not affect the agreement to arbitrate set forth in this Article XIII. Moreover, the Parties' obligations under this arbitration provision are enforceable even after this Agreement has terminated. The invalidity or unenforceability of any provision of the agreement to arbitrate set forth in this Article XIII shall not affect the validity or enforceability of the Disputing Parties' obligation to submit their Disputes to binding arbitration or the other provisions of this agreement to arbitrate.

ARTICLE XIV
MISCELLANEOUS

14.1. Notice. Any notice, request, instruction, correspondence or other document required to be given hereunder by any party to another (herein collectively called "Notice") shall be in writing and delivered in person or by courier service requiring acknowledgment of delivery or mailed by certified mail, postage prepaid and return receipt requested, or by telecopier, as follows:

If to Seller, addressed to:

L.B. Foster Company
415 Holiday Drive
Pittsburgh, PA 15220
Attention: Chief Executive Officer
Telecopier No.: 412-928-7891

With a copy to:
L.B. Foster Company
415 Holiday Drive
Pittsburgh, PA 15220
Attention: General Counsel
Telecopier No.: 412-928-7891

If to Buyer, addressed to:

The Reinforced Earth Company
8614 Westwood Center Drive
Suite 110
Vienna, VA 22182-2233
Attention: President
Telecopier No.: (703) 821-1815

With a copy to:
Bracewell & Giuliani LLP
2000 K Street, N.W.
Washington, D.C. 20006
Attention: Amauri G. Costa
Telecopier No.: (202) 223-1225

Notice given by personal delivery or courier service shall be effective upon actual receipt. Notice given by mail shall be effective five days after deposit with the United States postal service. Notice given by telecopier shall be confirmed by appropriate answer back and shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next Business Day after receipt if received before the recipient's normal business hours. All Notices by telecopier shall be confirmed promptly after transmission in writing by regular mail or personal delivery. Any party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

14.2. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania, without regard to its conflict of laws rules or principles

14.3. Entire Agreement; Amendments and Waivers. This Agreement, the Noncompetition Agreement, and the Confidentiality Agreement entered into by Buyer for the benefit of Seller, dated September 6, 2005, together with all schedules and exhibits attached hereto and thereto, constitute the entire agreement between the parties pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

14.4. Severability. If any one or more of the provisions contained in this Agreement or in any other document delivered pursuant hereto shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement or any other such document and such provision shall be reformed so that it would be valid, legal and enforceable to the maximum extent permitted by Applicable Law.

14.5. Exhibits and Schedules. The Exhibits and Schedules referred to herein are attached hereto and incorporated herein by this reference.

14.6. Successors Bound; Third Parties. This Agreement may not be assigned by any party (other than an assignment by Buyer to any Affiliate of Buyer, subject to Buyer remaining obligated to Seller for all of Buyer's obligations under this Agreement) without the consent of the other parties. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Nothing in this Agreement, express or implied, is intended to confer upon any Person other than the parties hereto and their respective successors and permitted assigns, any liabilities, duties, rights, benefits or obligations hereunder, except as specifically provided herein with respect to Buyer Indemnified Parties and Seller Indemnified Parties. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, NOTHING CONTAINED IN THIS AGREEMENT SHALL BE DEEMED TO CREATE ANY RIGHT OR CLAIM FOR THE BENEFIT OF, NOR SHALL THIS AGREEMENT BE ENFORCEABLE BY, ANY EMPLOYEE OF THE SELLER

OR OTHER PERSON WHO IS NOT A PARTY TO THIS AGREEMENT, AND NOTHING CONTAINED IN THIS AGREEMENT SHALL MAKE ANY SUCH EMPLOYEE OR PERSON A THIRD PARTY BENEFICIARY OF THIS AGREEMENT.

14.7. Multiple Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14.8. Mutual Drafting. This Agreement is the joint product of Buyer and Seller and each provision hereof has been subject to the mutual consultation, negotiation and agreement of Buyer and Seller and shall not be construed for or against any party hereto.

14.9. Further Assurances. From time to time following the Closing, at the request of either party and without further consideration, the other party shall execute and deliver to such requesting party such instruments and documents and take such other actions (but without incurring any material financial obligation) as such requesting party may reasonably request to consummate more fully and effectively the transactions contemplated hereby.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts, all as of the Effective Date.

SELLER:

L.B. FOSTER COMPANY

By: /s/ Stan L. Hasselbusch

Name: Stan L. Hasselbusch
Title: President and CEO

BUYER:

THE REINFORCED EARTH COMPANY

By: /s/ Roger Bloomfield

Name: Roger Bloomfield
Title: President

NONCOMPETITION AGREEMENT

This Noncompetition Agreement ("Agreement"), is made this ____ day of _____ 2006 (the "Effective Date"), by and between L.B. Foster Company, a Pennsylvania corporation ("LB. Foster"), and The Reinforced Earth Company, a Delaware corporation ("RECo").

WITNESSETH:

WHEREAS, pursuant to the Asset Purchase Agreement, RECo is acquiring certain assets from LB. Foster; and

WHEREAS, as a material condition to RECo's obligation to enter- into and to consummate the transactions contemplated by the Asset Purchase Agreement, and for the consideration described herein, L.B. Foster has agreed to enter into this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the sufficiency and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions, In this Agreement:

"Affiliate(s)" of a Person shall mean a Person directly or indirectly controlled by, controlling or under common control with the other Person. For the purposes of this definition, "control" means, when used with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract, or otherwise, and the terms "controlling" and "controlled" have correlative meanings; provided, however, that for purposes of this Agreement a director of a Person shall not be considered to have control of such Person merely because of its position as a director.

"Asset Purchase Agreement" shall mean that certain Asset Purchase Agreement dated February 10, 2006, by and between L.B. Foster, as Seller, and RECo, as Buyer, for the acquisition of the certain assets by RECo.

"Closing" shall have the meaning set forth in the Asset Purchase Agreement.

"Competing Business" shall mean the mechanical stabilized earth business (but excluding the soundwall business).

"Customer" shall mean all customers of the Competing Business;

"Non-Compete Period" shall have the meaning set out in Section 3 hereof.

"Notice" shall have the meaning set out in Section 10 hereof.

"Territory" shall mean the United States of America.

2. Consideration for Covenants. The consideration for the promises and covenants contained herein is as set forth in the Asset Purchase Agreement and other good and valuable consideration.

3. Covenant Not To Compete. L.B. Foster covenants and agrees that, for a period of five (5) years following the Closing (said five (5) year period, the "Non-Compete Period") it shall not engage, and it shall cause its Affiliates not to engage, directly or indirectly, whether as principal or as agent, partner, member, representative, shareholder or otherwise, alone or in association with any other Person, in any Competing Business in the Territory; provided, however, that notwithstanding the foregoing, L.B. Foster and any of its Affiliates may own, directly or indirectly, solely as an investment, securities of any person, firm, or entity which are publicly traded if L.B. Foster or the particular Affiliate (a) is not a controlling person of, or a member of a group which controls, such person, firm, or entity; (b) does not, directly or indirectly, own five percent (5%) or more of any class of securities of such person, firm, or entity; or (c) does not interfere with business relationships (whether formed heretofore or hereafter) between such Competing Business and any customers or suppliers of the Competing Business. This covenant not to compete is subject to the terms of Section 7.10 of the Asset Purchase Agreement with respect to each Deferred Contract (as such term is defined in the Asset Purchase Agreement).

4. Non-Solicitation of Employees. L.B. Foster agrees that during the Non-Compete Period it shall not solicit or induce, or attempt to solicit or induce, and it shall cause its Affiliates not to solicit or induce or attempt to solicit or induce, directly or indirectly, any employee of RECo or any of its Affiliates to leave such employ for any reason associated with a Competing Business in the Territory. For the purposes of this section, the publication or advertisement by L.B. Foster or any Affiliate of a general solicitation for employment in a newspaper, trade journal or other publication or media of general interest, and the employment of any employee of RECo or any of its Affiliates who responds to a general solicitation for employment not targeted at a specific employee, shall not be a breach hereof.

5. Severability. The covenants contained herein shall be construed as a series of separate and severable covenants. LB. Foster agrees that if any court of competent jurisdiction determines that any such separate covenant is not fully enforceable pursuant to its terms, such covenant shall be deemed modified or severed and that the remainder of such covenant and of this Agreement shall be enforced to the fullest extent permitted by applicable law and consistent with the intent of the parties expressed hereunder.

6. Injunctive Relief. The parties acknowledge and agree that the covenants and obligations hereunder are of special and unique character and that any breach of any such covenants or obligations would cause immediate and irreparable harm for which remedies at law are inadequate. Such non-breaching party shall have the right to injunctive or other equitable relief, in addition to all of its other rights and remedies at law or in equity, to enforce the provisions of this Agreement. All costs and expenses (including attorneys' fees and costs incurred in arbitration proceedings) reasonably incurred in any dispute concerning the enforcement of this Agreement shall be borne by the non-prevailing party.

7. Binding Effect and Assignment. This Agreement shall be binding upon and inure to the benefits of the parties hereto and their successors and permitted assigns; but neither this Agreement nor any of the rights, benefits or obligations hereunder shall be assigned by either party without the prior written consent of the non-assigning party, such consent not to be unreasonably withheld; provided, however, that this Agreement and all rights hereunder may be assigned by either party without the prior written consent of the non-assigning party to any corporation or other business entity that succeeds to all or substantially all of the assigning party's business through merger, consolidation, or corporate reorganization, or by acquisition of all or substantially all of the assets of the assigning party, and assumes the assigning party's obligations under this Agreement; and provided further, that L.B. Foster may assign this Agreement and all rights hereunder to an Affiliate without the prior written consent of RECo provided that LB. Foster shall remain principally liable for and shall not be released from any of its obligations under this Agreement notwithstanding any such assignment.

8. Notices. Any notice, request, instruction, correspondence or other document required to be given hereunder by any party to another (herein collectively called "Notice") shall be in writing and delivered in person or by courier service requiring acknowledgment of delivery or mailed by certified mail, postage prepaid and return receipt requested, or by telecopier, as follows:

If to L.B. Foster, addressed to:

LB. Foster Company
415 Holiday Drive
Pittsburgh, PA 15220
Attention: Stan L. Hasselbusch, President & CEO
Telecopier No.: 412-928-7891

With a copy to:

LB. Foster Company
415 Holiday Drive
Pittsburgh, PA 15220
Attention: David L. Voltz, General Counsel
Telecopier No.: 412-928-7891

If to RECo, addressed to:

The Reinforced Earth Company
8614 Westwood Center Drive
Suite 110
Vienna, VA 22182-2233
Attention: Mr. Roger Bloomfield, President
Telecopier No.: (703) 821-1815

Notice given by personal delivery or courier service shall be effective upon actual receipt. Notice given by mail shall be effective five days after deposit with the United States postal service. Notice given by telecopier shall be confirmed by appropriate answer back and shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if received before the recipient's normal business hours. All Notices by telecopier shall be confirmed promptly after transmission in writing by regular mail or personal delivery. Any party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

9. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

10. Dispute Resolution. Any controversy or claim arising out of or relating to this Agreement or the breach, termination, validity or enforceability hereof shall addressed and settled in the manner provided in Article XIII of the Asset Purchase Agreement, the terms and conditions of which are hereby incorporated herein in their entirety.

11. Entire Agreement. This Agreement supersedes all prior agreements whether written or oral and constitutes the entire agreement between the parties with respect to the subject matter hereof. There shall be no modification, amendment, waiver or alteration of this Agreement, except in writing and signed by duly authorized officers of the parties. Any waiver of any terms or conditions hereof by either party shall not be construed as a continuing waiver but shall only apply to the particular transaction involved.

12. Governing Law. This Agreement shall be governed by and construed in accordance with laws of the State of Virginia, without regard to its conflict of laws rules or principles.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

L.B. FOSTER COMPANY

By: _____
Name: _____
Title: _____

THE REINFORCED EARTH COMPANY

By: _____
Name: _____
Title: _____

THE REINFORCED EARTH COMPANY

FOR IMMEDIATE RELEASE

Contacts: Dion Gray
Marketing Manager
The Reinforced Earth Company
Tel: 703 821 1175
E-mail: dgray@reinforcedearth.com

Jake Fuellhart
Communications Specialist
L.B. Foster Company
Tel: 412 928 5645
Email: jfuellhart@lbfosterco.com

THE REINFORCED EARTH COMPANY(R) HAS PURCHASED CERTAIN ASSETS OF THE L.B. FOSTER COMPANY

Vienna, VA, February, 2006. The Reinforced Earth Company (RECo) has acquired certain assets from the L.B. Foster Company (NASDAQ:FSTR), a 104 year old American corporation involved in the manufacture, fabrication and distribution of products for the transportation, construction, utility and energy industries. L.B. Foster anticipates realizing a net gain of under \$,,. from this transaction. The acquisition of the proprietary, patented Mechanical Stabilized Earth (MSE) system, marketed and sold by L.B. Foster under the trade name Retained Earth', positions RECo to offer a wider range of products, reinforcement selections, engineering services and new innovative products to the market.

RECO, the original inventor of MSE technology, with over 34 years of experience in the United States and activity in every State Department of Transportation, will continue to focus attention on service, training, quality and presenting an unparalleled range of economic and operational benefits to its customers. In addition, this acquisition will also lead to improved synergies with its sister companies within the USA Freyssinet Group. Working with DGI-Menard, who has significant expertise in ground improvement technologies, and Freyssinet LLC, an established leader in post-tensioning and stay cable structures, will allow RECO to center more energy on offering enhanced product solutions and improved problem solving capabilities, as the industry moves more to a design build project approach.

SUBCONTRACT

THIS SUBCONTRACT, dated this ___ of February, 2006, is by and between The Reinforced Earth Company ("RECo") and L.B. Foster Company ("Foster").

Background: Foster and RECo entered into an Asset Purchase Agreement dated as of _____, 2006 (the "Purchase Agreement") pursuant to which RECo agreed to acquire the Specified Assets and assume the Specified Liabilities. Capitalized terms used in this Subcontract and not otherwise defined herein shall have the meaning assigned to such terms in the Purchase Agreement.

Pursuant to the Purchase Agreement Foster intends to assign and RECo intends to take assignment of the Specified Contracts, which assignment requires the necessary third-party consents identified in the Purchase Agreement. As of the Closing, not all required consents have been obtained. Since substantially all the other Specified Assets of the Business will be transferred to RECo as of the Closing, the parties desire to enter into this Subcontract pursuant to which RECo agrees to perform the obligations (and receive the benefits) of the identified Contracts and Foster agrees to retain the direct relationship with the Customers under such Deferred Contracts and to take actions consistent with the direct relationship retained by Foster.

NOW THEREFORE RECo and Foster agree as follows:

1. With respect to the Deferred Contracts identified in Attachment "A", Foster and RECo enter into this subcontract, to be effective after the Closing, and RECo agrees to perform all the work and obligations required under such Deferred Contracts in accordance with their respective terms and conditions. Foster and RECo agree to assist each other with the relationship with each customer or vendor under such Deferred Contracts, including without limitation, assistance with issuance of invoices to such Customer, assistance with collection of amounts due under such Deferred Contracts and prompt payment with respect to vendor invoices.
2. In return for RECo's performance of obligations under the Deferred Contracts, RECo shall be entitled to receive all amounts payable to Foster under each of the Deferred Contracts with respect to work performed by RECo after the Closing. Foster shall immediately (but in no event later than five (5) days after receipt from the Customer) pay to RECo any amounts it receives under the Deferred Contracts for work performed by RECo after the Closing. With respect to any invoices

from a vendor under a Deferred Contract, RECo shall either timely pay such vendor directly (with instructions to apply such payment against such invoice) or pay the invoiced amount to Foster at least 5 days prior to such invoice's due date, and Foster in turn, shall pay such invoice(s), with such funds received from RECo, within 5 days of its receipt of such funds from RECo.

3. The parties will continue seeking consents for the assignment of the Deferred Contracts in accordance with the terms of the Purchase Agreement.
4. Upon receipt of a consent for assignment of any such Deferred Contracts, the party receiving the consent shall provide the other party with a copy of such consent(s) together with a revised version of Attachment "A" excluding such Deferred Contract(s) for which consent has been obtained. Upon the receiving party's acknowledgment of such modified Attachment "A", it shall replace the Attachment "A" then in force and this' Subcontract will terminate as to such Deferred Contracts for which a consent has been obtained, and such Deferred Contracts automatically will conclusively be deemed assumed by RECo as a Specified Contract. Once consents are received for all Deferred Contracts (and they are deemed Specified Contracts), this Subcontract shall terminate. Termination of this Subcontract shall not affect either party's obligation to make payments to the other.
5. This Subcontract is being executed to fulfill the obligations of the parties pursuant to Section 2.1 and 7.9 of the Purchase Agreement and is not meant to add to or subtract from the rights of the respective parties under the Purchase Agreement. In the event of any conflict or inconsistency between the terms of this Subcontract and the Purchase Agreement, the Purchase Agreement shall prevail.

THE REINFORCED EARTH COMPANY

L.B. FOSTER COMPANY

By: _____

By: _____

Its: _____

Its: _____

Exclusions from Data

- A. Lotus Notes email must be forwarded to an email account outside of L.B. Foster. Email access will be terminated at closing. Email will be forwarded to a designated email account provided by the buyer for a period not to exceed three months from closing.
- B. The data from the Geotech ACT for Lotus Notes database will be exported to an excel spreadsheet and forwarded to the buyer at closing. The following fields will be exported: Contact, Company, Title, Department, Phone, Ext, Fax, Salutation, E-mail, Address 1, Address 2, Address 3, City, State, Zipcode, Country, URL. Please understand that not all fields are populated.
- C. No data will be included from L.B. Foster's Enterprise Resource Planning application, JD Edwards.
- D. Internet access will be terminated at closing.
- E. Data residing on computers included in the sale will not be removed from the computer.
- F. Miscellaneous data and information residing in L.B. Foster corporate office in Pittsburgh is excluded.

SCHEDULE 2.7

ALLOCATION OF TOTAL CONSIDERATION

In accordance with Section 2.7 of the Asset Purchase Agreement, Seller and Buyer hereby agree that the consideration paid for the Specified Assets shall be allocated as follows:

1. Company Non-Compete	\$1,000,000
2. Trademarks	\$ 500,000
3. Goodwill	\$2,500,000

Subtotal	\$4,000,000
plus	
Net Assets	Closing Date Net Asset Value

JURISDICTIONS

LB. Foster Is qualified to do business in many states, including California, Illinois, Florida and Virginia.

NO CONFLICTS

Unless a consent is obtained from the other Person to the applicable contract, Specified Contracts, other than Accounts Payable, could be subject to termination or cancellation by such other Person.

In addition, Seller must obtain the consent of PNC Bank, on behalf of itself and various other banks, under the Revolving Credit and Security Agreement dated May 5, 2005, as amended.

SELLER'S CONSENTS, APPROVALS AND PERMITS

Unless a consent is obtained from the other Person to the applicable contract, all Specified Contracts, other than Accounts Payable, could be subject to termination or cancellation by such other Person.

In addition, Seller must obtain the consent of PNC Bank, on behalf of itself and various other banks, under the Revolving Credit and Security Agreement dated May 5, 2005, as amended.

Permits - Seller has the following Permits related to its conduct of the Business:

JURISDICTION -----	PERMIT TYPE -----	PERIOD -----
California - San Diego	Business License	3/1/05 to 2/28/06
Florida - City of Melbourne (Melbourne office)	Occupancy Permit	10/1/05 to 9/30/06
Florida - Brevard County (Melbourne Office)	Occupancy Permit	10/1/05 to 9/30/06
Florida - Polk County (Lakeland facility)	Occupancy Permit	10/1/05 to 9/30/06

Any consents required relating to matters disclosed in Schedule 3.14 relating to the Rinker Property.

L.B. FOSTER COMPANY

MEDICAL
REIMBURSEMENT
PLAN

MRP1

SUMMARY PLAN DESCRIPTION
AS AMENDED AND RESTATED
EFFECTIVE JANUARY 1, 2006

MEDICAL REIMBURSEMENT PLAN OF BENEFITS

Maximum Yearly Benefit for Plan - MRP1 \$ 3,000
 Maximum Lifetime Maximum for Substance Abuse \$25,000

Medical Reimbursement Plans provide Benefits for in-network covered services allowed, but not covered in their entirety by the Premium Medical and Dental Plans. Deductibles and Co-payments may be reimbursed by these Plans, up to the Usual, Reasonable and Customary Charge. Services for which coverage is limited by the Premium Plan, such as Orthodontics, may be reimbursed up to the Reasonable and Customary charge. Penalties for failure to Pre-notify or charges declined due to a Pre-Existing Condition are not allowable under these Plans, as well as charges above any limits set by the Medical Reimbursement Plans.

Additionally, the Medical Reimbursement Plans contain provisions for vision care as listed in this schedule.

SCHEDULE OF BENEFITS FOR MRP1

BENEFITS

BENEFIT PERCENTAGE:
 Medical Plan Pays 100%
 Covered Person Pays 0%

BENEFITS AND SERVICES -----	PLAN PAYS -----	COMMENTS -----
HOSPITAL BENEFIT		
Inpatient Hospital Services	100% of UCR	Pre-notification required. Benefit based on Semi-private room rate.
Outpatient Hospital	100% of UCR	
Skilled Nursing Facility	100% of UCR	Pre-notification required.
Emergency Room	100% of UCR	Non-emergency care is not covered.
MENTAL HEALTH & SUBSTANCE ABUSE BENEFITS		
Inpatient Mental Health Treatment	100% of UCR	Pre-notification required.

BENEFITS AND SERVICES -----	PLAN PAYS -----	COMMENTS -----
Outpatient Mental Health Treatment including Psychological Testing	100% of UCR	
Inpatient Substance Abuse Treatment	100% of UCR	Pre-notification required.
Outpatient Substance Abuse Treatment	100% of UCR	Limited to 50 paid visits per year.
MISCELLANEOUS SERVICES AND SUPPLIES		
Home Health Care	100% of UCR	
Hospice Care Inpatient	100% of UCR	Pre-notification required.
Hospice Care Outpatient	100% of UCR	
Bereavement Counseling	100% of UCR	
Ambulance Service	100% of UCR	
Durable Medical Equipment	100% of UCR	
Other outpatient care	100% of UCR	
PROFESSIONAL SERVICES BENEFIT		
Physician's visits	100% of UCR	
- - Office Visit		
- - Inpatient Hospital Visit or Consultation	100% of UCR	
- - Allergy	100% of UCR	
- - Other Covered Injections	100% of UCR	
Second Surgical Opinion	100% of UCR	If a second surgical opinion is required by Utilization Review but not obtained, the penalty will not be allowed under these Plans.
Obstetrics & Newborn Care	100% of UCR	

BENEFITS AND SERVICES -----	PLAN PAYS -----	COMMENTS -----
Surgical Services	100% of UCR	Includes surgeon and facility. Pre-notification required for all inpatient and outpatient surgical procedures. Pre-notification not required for office surgery.
Transplant Services	100% of UCR	Donor/Procurement related to a transplant is NOT COVERED.
Diagnostic Laboratory & X-ray Expenses	100% of UCR	
Supplemental Accident Benefit	100% of UCR	
REHABILITATION THERAPY		
Chiropractic Care	100% of UCR	
Acupuncture Treatment	NOT COVERED	
Temporomandibular Joint Disorders (TMJ)	NOT COVERED	
Cardiac Rehabilitation	100% of UCR	Pre-notification required.
Chemotherapy	100% of UCR	
Radiation Therapy	100% of UCR	
Respiratory Therapy	100% of UCR	
Speech Therapy	100% of UCR	
Physical Therapy	100% of UCR	
Occupational Therapy	100% of UCR	
PREVENTIVE CARE		
Well Care		
- - Physical Exam	100% of UCR	
- - Other Well Services	100% of UCR	
Mammogram	100% of UCR	
GYN & Pap	100% of UCR	

BENEFITS AND SERVICES -----	PLAN PAYS -----	COMMENTS -----
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Well Child Care includes reimbursement for the following services: office visits, physical examination, laboratory tests, x-rays, immunizations and cancer screenings.

DENTAL BENEFITS

Preventive Services	100% of UCR
Basic Services	100% of UCR
Major Services	100% of UCR
Orthodontics	100% of UCR

VISION BENEFITS

Exams	100% of UCR	Limited to 1 per 12 months.
Frames	100% of UCR	Limited to 1 set per 24 months. \$135 maximum.
Lenses	100% of UCR	*Limited to 2 pair per 24 months. Includes polycarbonate lens material for children under 19 Includes lenses coating
Contacts	100% of UCR	*Limited to 1 pair per 12 months. \$100 maximum
Disposable Contacts	100% of UCR	*Limited to \$100 maximum per 12 months.

* For annual Vision Benefits, participant may choose either lenses or contacts (traditional or disposable), but not both.

PRESCRIPTION BENEFITS

Retail or Mail Order	100% of UCR	Reimbursable after prescription Prescriptions deductible has been met.
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Benefits for this coverage may be increased if a prescription change occurs. Also, if a medical condition requires more frequent services, these Benefits may be increased to meet that requirement. Any such condition will have to be documented by a letter of Medical Necessity.

EXCLUSIONS FOR MEDICAL REIMBURSEMENT PLANS

(IN ADDITION TO THOSE OUTLINED IN THE GROUP INSURANCE PLAN
MEDICAL EXCLUSIONS AND LIMITATIONS)

MEDICAL EXCLUSIONS

AMOUNTS over the Usual, Reasonable and Customary Charge;

CHARGES ALREADY PAID by the L.B. Foster Company's basic medical and dental plans;

CHARGES THAT ARE NOT COVERED in part by the L.B. Foster Company's medical and dental Plans, unless specifically stated in the Schedule of Benefits;

OUT-OF-NETWORK SERVICES will not be paid under this Plan.

PENALTIES assessed for non-compliance assessed with Utilization Review Requirements.

VISION EXCLUSIONS

NON-PRESCRIPTION EYE GLASSES;

OVERSIZED LENSES, SPECIAL TINTING, SPECIAL POLISHING.

PRESCRIPTION EXCLUSIONS

COVERED PRESCRIPTION DRUGS

- Drugs prescribed by a physician that require a prescription by federal law unless otherwise excluded.
- All compound medications containing at least one prescription ingredient in a therapeutic amount.
- Insulin when prescribed by a physician; needles, syringes and diabetic supplies, i.e. blood test strips, lancets, alcohol swabs, diabetic meters.
- Oral contraceptives
- Immunosuppressants
- Dermatological agents used to treat acne
- Immune Response Modifiers, such as. Betaseron, Avonex and Copaxone and Rebif
- Oral and injectable sexual dysfunction drugs

LIMITS TO COVERED PRESCRIPTION DRUG BENEFIT

The covered benefit for any one prescription will be limited to:

- The quantity limits established by the plan
- Refills only up to the time specified by a physician
- Refills up to one year from the date of order by a physician
- Certain prescription drugs require prior-authorization. A partial list is below:
 - All anabolic steroids
 - Drugs to treat Attention Deficit Hyperactivity Disorder or Narcolepsy
 - Remicade for treatment of Crohn's Disease

- Infertility Drugs are limited to 7 cycles per lifetime; 30 days supply per prescription
- Dermatological agents used to treat acne over the age of 25
- Xolair
- Synagis
- Lotronex; Zelnorm
- Synvisc; Hylagan Limit to 2 cycles of injections per lifetime
- Weight Loss medications (dx of morbid obesity)
- Migraine Medications are limited to the manufacturer or FDA standard guidelines
- Toradol;Stadol NS (quantity limits will apply)

EXCLUDED PRESCRIPTION DRUGS

- Over the Counter products that may be bought without a written prescription or their equivalents. This does not apply to injectable insulin, insulin syringes and needles and diabetic supplies, which are specifically included.
- Devices of any type even though such devices may require a prescription. This includes (but not limited to) therapeutic devices or appliances such as Implantable insulin pumps and ancillary pump products.
- Immunization Agents, biological serum, biological immune globulins and vaccines.
- Implantable time-released medications.
- Experimental or Investigational Drugs or drugs prescribed for experimental, Non-FDA approved, indications.
- Drugs approved by the FDA for cosmetic use only, i.e. Renova
- Compound chemical ingredients or combination of federal legend drugs in a Non FDA approved dosage form.
- Nutritional Supplements except for metabolic conditions only.
- Weight loss medications
- Injectable arthritis medications: Enbrel, Kineret, Humira and Remicade
- Influenza medications
- Growth Hormones
- Miscellaneous supplies, i.e. batteries, logbooks, adapters, videotapes
- Hair reduction agents or hair replacement agents, i.e. Propecia or Vaniqa
- Fluoride
- Ceredase, Cerezyme
- Xyrem
- Pravigard
- Sarafem
- Blood Products and blood factor
- Amieve and Raptiva
- Any prescription that you are entitled to receive without charge

from any Workers Compensation or similar law or municipal state or Federal program.

- Charges for the administration of a drug by an attending physician
- Charges for medication that is to be taken by or administered to you, in whole or part, while you are a patient in a licensed hospital, rest home, sanitarium, extended care facility, convalescent hospital or nursing home.
- Drugs for tobacco dependency.

- Cosmetic drugs, even if ordered for non-cosmetic purposes.
- Charges for giving or injecting drugs.

L.B. FOSTER COMPANY

MEDICAL
REIMBURSEMENT
PLAN

MRP2

SUMMARY PLAN DESCRIPTION
AS AMENDED AND RESTATED
EFFECTIVE JANUARY 1, 2006

MEDICAL REIMBURSEMENT PLAN OF BENEFITS

Maximum Yearly Benefit for Plan - MRP2 \$ 6,000
 Maximum Lifetime Maximum for Substance Abuse \$25,000

Medical Reimbursement Plans provide Benefits for in-network covered services allowed, but not covered in their entirety by the Premium Medical and Dental Plans. Deductibles and Co-payments may be reimbursed by these Plans, up to the Usual, Reasonable and Customary Charge. Services for which coverage is limited by the Premium Plan, such as Orthodontics, may be reimbursed up to the Reasonable and Customary charge. Penalties for failure to Pre-notify or charges declined due to a Pre-Existing Condition are not allowable under these Plans, as well as charges above any limits set by the Medical Reimbursement Plans.

Additionally, the Medical Reimbursement Plans contain provisions for vision care as listed in this schedule.

SCHEDULE OF BENEFITS FOR MRP2

		BENEFITS -----		
BENEFIT PERCENTAGE:				
	Medical Plan Pays	100%		
	Covered Person Pays	0%		
BENEFITS AND SERVICES -----	PLAN PAYS -----	COMMENTS -----		
HOSPITAL BENEFIT				
Inpatient Hospital Services	100% of UCR	Pre-notification required. Benefit based on Semi-private room rate.		
Outpatient Hospital	100% of UCR			
Skilled Nursing Facility	100% of UCR	Pre-notification required.		
Emergency Room	100% of UCR	Non-emergency care is not covered.		
MENTAL HEALTH & SUBSTANCE ABUSE BENEFITS				
Inpatient Mental Health Treatment	100% of UCR	Pre-notification required.		

BENEFITS AND SERVICES

PLAN PAYS

COMMENTS

Outpatient Mental Health Treatment including Psychological Testing	100% of UCR	
Inpatient Substance Abuse Treatment	100% of UCR	Pre-notification required.
Outpatient Substance Abuse Treatment	100% of UCR	Limited to 50 paid visits per year.
MISCELLANEOUS SERVICES AND SUPPLIES		
Home Health Care	100% of UCR	
Hospice Care Inpatient	100% of UCR	Pre-notification required.
Hospice Care Outpatient	100% of UCR	
Bereavement Counseling	100% of UCR	
Ambulance Service	100% of UCR	
Durable Medical Equipment	100% of UCR	
Other outpatient care	100% of UCR	
PROFESSIONAL SERVICES BENEFIT		
Physician's visits	100% of UCR	
- - Office Visit		
- - Inpatient Hospital Visit or Consultation	100% of UCR	
- - Allergy	100% of UCR	
- - Other Covered Injections	100% of UCR	
Second Surgical Opinion	100% of UCR	If a second surgical opinion is required by Utilization Review but not obtained, the penalty will not be allowed under these Plans.
Obstetrics & Newborn Care	100% of UCR	

BENEFITS AND SERVICES

PLAN PAYS

COMMENTS

BENEFITS AND SERVICES	PLAN PAYS	COMMENTS
Surgical Services	100% of UCR	Includes surgeon and facility. Pre-notification required for all inpatient and outpatient surgical procedures. Pre-notification not required for office surgery.
Transplant Services	100% of UCR	Donor/Procurement related to a transplant is NOT COVERED.
Diagnostic Laboratory & X-ray Expenses	100% of UCR	
Supplemental Accident Benefit	100% of UCR	
REHABILITATION THERAPY		
Chiropractic Care	100% of UCR	
Acupuncture Treatment	NOT COVERED	
Temporomandibular Joint Disorders (TMJ)	NOT COVERED	
Cardiac Rehabilitation	100% of UCR	Pre-notification required.
Chemotherapy	100% of UCR	
Radiation Therapy	100% of UCR	
Respiratory Therapy	100% of UCR	
Speech Therapy	100% of UCR	
Physical Therapy	100% of UCR	
Occupational Therapy	100% of UCR	
PREVENTIVE CARE		
Well Care		
- - Physical Exam	100% of UCR	
- - Other Well Services	100% of UCR	
Mammogram	100% of UCR	
GYN & Pap	100% of UCR	

BENEFITS AND SERVICES

PLAN PAYS

COMMENTS

PSA testing	100% of UCR	
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Well Child Care includes reimbursement for the following services: office visits, physical examination, laboratory tests, x-rays, immunizations and cancer screenings.

DENTAL BENEFITS

Preventive Services	100% of UCR	
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Basic Services	100% of UCR	
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Major Services	100% of UCR	
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Orthodontics	100% of UCR	
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VISION BENEFITS

Exams	100% of UCR	Limited to 1 per 12 months.
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Frames	100% of UCR	Limited to 1 set per 24 months. \$135 maximum.
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Lenses	100% of UCR	* Limited to 2 pair per 24 months. Includes polycarbonate lens material for children under 19 Includes lenses coating
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Contacts	100% of UCR	*Limited to 1 pair per 12 months. \$100 maximum
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Disposable Contacts	100% of UCR	*Limited to \$100 maximum per 12 months.
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* For annual Vision Benefits, participant may choose either lenses or contacts (traditional or disposable), but not both.

PRESCRIPTION BENEFITS

Retail or Mail Order Prescriptions	100% of UCR	Reimbursable after prescription deductible has been met.
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Benefits for this coverage may be increased if a prescription change occurs. Also, if a medical condition requires more frequent services, these Benefits may be increased to meet that requirement. Any such condition will have to be documented by a letter of Medical Necessity.

EXCLUSIONS FOR MEDICAL REIMBURSEMENT PLANS
(IN ADDITION TO THOSE OUTLINED IN THE GROUP INSURANCE PLAN
MEDICAL EXCLUSIONS AND LIMITATIONS)

MEDICAL EXCLUSIONS

AMOUNTS over the Usual, Reasonable and Customary Charge;

CHARGES ALREADY PAID by the L.B. Foster Company's basic medical and dental plans;

CHARGES THAT ARE NOT COVERED in part by the L.B. Foster Company's medical and dental Plans, unless specifically stated in the Schedule of Benefits;

OUT-OF-NETWORK SERVICES will not be paid under this Plan.

PENALTIES assessed for non-compliance assessed with Utilization Review Requirements.

VISION EXCLUSIONS

NON-PRESCRIPTION EYE GLASSES;

OVERSIZED LENSES, SPECIAL TINTING, SPECIAL POLISHING.

PRESCRIPTION EXCLUSIONS

COVERED PRESCRIPTION DRUGS

- Drugs prescribed by a physician that require a prescription by federal law unless otherwise excluded.
- All compound medications containing at least one prescription ingredient in a therapeutic amount.
- Insulin when prescribed by a physician; needles, syringes and diabetic supplies, i.e. blood test strips, lancets, alcohol swabs, diabetic meters.
- Oral contraceptives
- Immunosuppressants
- Dermatological agents used to treat acne
- Immune Response Modifiers, such as. Betaseron, Avonex and Copaxone and Rebif
- Oral and injectable sexual dysfunction drugs

LIMITS TO COVERED PRESCRIPTION DRUG BENEFIT

The covered benefit for any one prescription will be limited to:

- The quantity limits established by the plan
- Refills only up to the time specified by a physician
- Refills up to one year from the date of order by a physician
- Certain prescription drugs require prior-authorization. A partial list is below:
 - All anabolic steroids
 - Drugs to treat Attention Deficit Hyperactivity Disorder or Narcolepsy
 - Remicade for treatment of Crohn's Disease

- Infertility Drugs are limited to 7 cycles per lifetime; 30 days supply per prescription
- Dermatological agents used to treat acne over the age of 25
- Xolair
- Synagis
- Lotronex; Zelnorm
- Synvisc; Hylagan Limit to 2 cycles of injections per lifetime
- Weight Loss medications (dx of morbid obesity)
- Migraine Medications are limited to the manufacturer or FDA standard guidelines
- Toradol;Stadol NS (quantity limits will apply)

EXCLUDED PRESCRIPTION DRUGS

- Over the Counter products that may be bought without a written prescription or their equivalents. This does not apply to injectable insulin, insulin syringes and needles and diabetic supplies, which are specifically included.
- Devices of any type even though such devices may require a prescription. This includes (but not limited to) therapeutic devices or appliances such as Implantable insulin pumps and ancillary pump products.
- Immunization Agents, biological serum, biological immune globulins and vaccines.
- Implantable time-released medications.
- Experimental or Investigational Drugs or drugs prescribed for experimental, Non-FDA approved, indications.
- Drugs approved by the FDA for cosmetic use only, i.e. Renova
- Compound chemical ingredients or combination of federal legend drugs in a Non FDA approved dosage form.
- Nutritional Supplements except for metabolic conditions only.
- Weight loss medications
- Injectable arthritis medications: Enbrel, Kineret, Humira and Remicade
- Influenza medications
- Growth Hormones
- Miscellaneous supplies, i.e. batteries, logbooks, adapters, videotapes
- Hair reduction agents or hair replacement agents, i.e. Propecia or Vaniqa
- Fluoride
- Ceredase, Cerezyme
- Xyrem
- Pravigard
- Sarafem
- Blood Products and blood factor
- Amieve and Raptiva
- Any prescription that you are entitled to receive without charge

from any Workers Compensation or similar law or municipal state or Federal program.

- Charges for the administration of a drug by an attending physician
- Charges for medication that is to be taken by or administered to you, in whole or part, while you are a patient in a licensed hospital, rest home, sanitarium, extended care facility, convalescent hospital or nursing home.
- Drugs for tobacco dependency.

- Cosmetic drugs, even if ordered for non-cosmetic purposes.
- Charges for giving or injecting drugs.

L. B. FOSTER COMPANY
 LEASED VEHICLE / CAR ALLOWANCE POLICY
 REVISED 01/01/06

SP-P-10
 SUPERSEDES 12/10/04

1. GENERAL POLICY

It is the policy of the L.B. Foster Company to provide a leased vehicle or vehicle allowance to employees that have a need for business travel generally holding one of the following positions:

- Chairman and President;
- Corporate Officer;
- Sales Managers and Sales Positions;
- An eligible employee in which the position requires frequent business travel by automobile

2. PURPOSE

- - To provide cost effective transportation to existing employees, who are required to travel for business, in a direct sales position.
- - To insure a "standard" presentation, as a L. B. Foster representative

3. ELIGIBILITY

Class:	Group:	Policy:	Monthly Deduction for Leased Vehicle:
A	Chairman, President and CEO	\$800 monthly Car Allowance. or Leased Car	\$100
B	Corporate Officers	\$700 monthly Car Allowance. or Leased Car	\$ 85
C	Sales Managers	Leased Car or \$600 monthly Car Allowance.	\$ 75
D	Outside Sales personnel and other eligible participants who are required to drive in excess of 12,000 business miles annually.	Leased Car or \$500 monthly Car Allowance	\$ 60

See Addendum for Current Vehicle Selection

4. ELIGIBLE DRIVER

Except in emergencies, driving of a Company vehicle shall be limited to employee and the employee's spouse over the age of twenty-five (25).

5. RESPONSIBILITY

A. Plan Participants

1. Car Allowance guidelines

- a. The monthly car allowance amount is set by employee class on an annual basis and is paid as additional taxable income in the employee's regular paycheck. An employee receiving a car allowance is responsible for the payment of any and all associated federal, state, and local taxes.
- b. Employees on a monthly car allowance, that drive personal vehicles for business reasons, will be reimbursed for those miles at the established IRS reimbursement rate.
- c. An employee receiving a car allowance is required to have available, as required by business needs, a late model four (4) door vehicle. The vehicle is to be clean externally and internally and is presentable for Company business at all times.

2. Leased Car Program Guidelines

- a. An eligible employee, as identified in section 1. General Policy, within class A, B, C and D may choose between a Company leased vehicle, if they are required to travel at minimum 12,000 business miles per year, or a monthly car allowance.
- b. Participants are to log all business miles and submit for reimbursement via their weekly expense reports. The Company will establish and publish the reimbursement rate at least annually. Reimbursement rates will be established to cover the employee's cost of gas that is attributable to cost of required business miles using the leased vehicle provided by the Company. The Company will only reimburse employees for authorized Business miles, personal miles are not eligible.
- c. Eligible employees may not opt out of the Company leased vehicle option until the current car has reached 60 months of service or the vehicle has reached 80,000 miles. The Company may require the employee to continue driving the vehicle if the book value exceeds the Fair Market Value of the vehicle until such time that the disposal of the car will not result in a financial loss to the Company.
 - i. Employees that have Company leased vehicles prior to 01/01/06 may receive a car allowance per their class should they no longer be required, by their position in the Company to drive 12,000 annual business miles. Sales Managers and Sales Positions driving less than 12,000 annual business miles are eligible for a car allowance.
 - ii. Employees not in a Sales Manager or Sales Position hired after 01/01/06 who may have been required at some point to drive

12,000 business miles and was entitled to a Company provided leased vehicle, and no longer, due the requirements of their position are no longer required to drive in excess of 12,000 business miles, shall lose the benefit of the Company Leased car and will not be eligible to receive a car allowance.

- d. When a new Company Leased vehicle is ordered, the employee may purchase options at his/her expense, beyond Company established base options, available on his or her vehicle model. Payment is due before delivery of the vehicle. The leasing company will provide information regarding payment and applicable sales and or state tax.
- e. It shall be the responsibility of each employee receiving a Company leased vehicle to monitor and report odometer readings as of each November 1st and on the date his/her vehicle is replaced to validate personal mileage. These odometer readings are to be turned into the Payroll Department during the first week of November on the Company Automobile Odometer Form. (Attachment SP-P-10.1)
- f. If a "Leased Vehicle Odometer form (SP-P-10.1)" is not received, by the announced day, mileage estimates from expense reports, fuel, and maintenance records will be used to determine personal and business miles. It shall be the responsibility of each employee to maintain records documenting all business and personal mileage usage in accordance with record keeping requirements which may, from time to time, be required by the Internal Revenue Service, and to note this on the Company Automobile Odometer Form. (Attachment SP-P-10.1)
- g. The driver is responsible for operating the vehicle in a safe manner. The use of seat belts is mandatory for the driver and all passengers. Operating a motor vehicle while under the influence of alcohol or illegal drugs is prohibited.
- h. It is the employee's responsibility to notify their Manager or the Human Resources Department of any change in the employee's physical status or if the employee is taking any medications labeled with a warning that the medication could impair his/her driving.
- i. Although the use of cellular phones while driving is not encouraged, the Company suggests a "hands-free" device be used in the vehicle while driving.
- j. If any driver of a Company leased vehicle or an employee receiving a car allowance, is issued a citation for DUI (driving under the influence), their Company vehicle/car allowance privileges will be suspended until the outcome of the charge is determined in a court of law. If convicted for DUI, that driver will have their Company leased vehicle/car allowance privileges revoked for a minimum one (1) year period. Pre-trial suspension will be counted towards the one (1) year.

In addition, other disciplinary actions may be levied up to and including termination. Decisions on reinstatement of Company car privileges after a suspension will be based on continued business need of the position, consultations with the Risk Manager and compliance with Foster's current automobile insurance carrier's requirements.

- k. If any employee is issued a second DUI citation, the privilege of a company-leased vehicle will be removed permanently.
- l. Leased vehicle participants are required to adhere to the maintenance schedule under the leased vehicle maintenance program.
- m. While assigned to an employee, Company vehicles must be carefully maintained and kept clean in a manner properly representing the Company. When returned from employee use, vehicles should be clean and free of alteration or damage beyond normal wear and tear.
- n. All participants in this program shall be required to execute SP-P-10.2 (Acknowledgment of Driver Requirements) and SP-P-10.1 (Company Automobile Odometer form) on an annual basis.

FAILURE TO ADHERE TO THESE POLICIES CAN RESULT IN LOSS OF COMPANY CAR PRIVILEGES, AND/OR DISCIPLINARY ACTIONS UP TO AND INCLUDING TERMINATION.

3. Accounting and Payroll Departments

It shall be the responsibility of the Accounting and Payroll Departments to maintain and verify the records of all Leased Vehicle Plan participants with regard to payroll deductions, individual taxability calculations and W-2 reporting.

4. Transportation Department

- 1. It shall be the responsibility of the Transportation Department to monitor the fleet of Company leased automobiles in service, to provide lease values, to ensure that the appropriate forms are provided to each driver, and acquire and dispose of all Company leased automobiles.

5. Human Resources Department

- 1. The Vice President, Human Resources shall be responsible for the interpretation and application of the provisions of the Leased Vehicle Plan.
- 2. The Human Resources Department shall obtain a copy of a newly hired employee's driver's license prior to authorizing the use of a company vehicle.

3. The Human Resources Department shall be responsible for obtaining an application and completing a Motor Vehicle Record (MVR) check on all new hires that may be required to drive as part of their assigned duties and no less than annually thereafter. Any employee with excessive violations or accidents may lose their leased vehicle privileges based on the requirements of the fleet insurance carrier.

5. The Human Resources Department and the Finance Department will be responsible for investigating all accidents.

6. Division Management and the Vice President of Human Resources will be responsible for approving any car assignments or allowance and may, at his or her discretion, reject assignment of a Company vehicle or authorizing the receipt of a car allowance.

7. PRACTICE

A. Pursuant to the Tax Reform Act of 1984, the value of the personal use of an employer provided automobile must be included in the employee's income and subjected to withholding tax.

B. The annual lease value of an automobile shall be based the manufacture's invoice price plus 4%.

C. The percentage of personal usage of the annual lease value shall represent an additional non-cash item which shall be included as employee taxable income.

D. The annual lease value shall include all maintenance and insurance but will not include the annual fuel cost for the leased vehicle.

E. Fuel shall be valued at the current calendar year IRS established rate, per personal mile driven for employees driving company leased vehicles.

F. The driver of a company-leased vehicle is to use the maintenance card to charge maintenance and repair expenses. Those expenses that cannot be charged through the maintenance program shall be reimbursed through the Weekly Expense Report. For body damage and repairs refer to 10(c).

G. The Company will reimburse employees for Manager Approved Business Miles. Employees are to submit approved miles, via the weekly expense report.

H. 90 days prior to turning in a Company leased vehicle, all maintenance expenses must be approved by Transportation.

I. Employees who receive a car allowance will be reimbursed via the Company expense report at the per mile rate established by the IRS annually for approved business miles.

J. Monthly deductions for Company leased vehicles shall be classified on the employee pay stub as federal withholding tax.

K. The annualized dollar value of the Company automobile personal use benefit will appear as additional earnings on the employee pay stub and W-2.

8. TRANSFER

The transfer of any Company provided automobile between employees must be authorized by the Human Resources Department and Division Officer(s).

9. REPLACEMENT

A. Company leased vehicles may be eligible for replacement not earlier than 60 months or 80,000 miles, whichever occurs first. Replacement Vehicle orders will not be approved and entered by the Transportation Department until the vehicle has reached 77,000 miles. The employee's Manager may require the eligible employee to continue driving the vehicle if the book value exceeds the Fair Market Value of the vehicle until such time that the disposal of the car will not result in a financial loss to the Company.

B. All vehicle lease terms will be set based on the anticipated annual business miles the position is required to drive.

C. Drivers and their immediate family members may purchase the employee's assigned vehicle at lease end for the current wholesale fair market value (established by the Transportation Department) plus all taxes, title, licensing, delivery and any other related costs. The value of the vehicle will then be adjusted for any driver-paid options.

D. Vehicles not purchased will be disposed of by the Transportation Department.

E. Any employee who purchases a vehicle under this standard practice is responsible for all financing, pick up of vehicle, sales tax, and must sign an "As Is" bill of sale that will be placed in their personnel file. Payment in full to the leasing Company is required prior to release of the vehicle's title. The final sales transaction is solely between the leasing company and the purchaser of the vehicle and L.B. Foster has no involvement in the title transfer.

10. TERMINATION OF EMPLOYMENT

The immediate supervisor of a terminated employee shall be responsible for ensuring that the terminated employee deposits the leased vehicle and keys at the Company facility prior to or on the day of termination. The employee is to complete form SP-P-10.1 and return it to the Payroll Department or they will be charged 100% personal mileage usage for that year.

11. ACCIDENT/LOSS RESPONSIBILITY/INSURANCE

A. Personal property -The Corporate Vehicle Insurance Plan does not cover personal articles. Employees must secure their own insurance.

- B. Company property - Samples, literature, equipment, and supplies which are in the direct possession of an employee shall be the responsibility of the employee if lost, stolen, or damaged.
- C. Accident and loss reports - All accidents regardless of fault or amount of damage and property losses must be reported immediately to the employee's manager and the Insurance Department by personal contact and by use of the Preliminary Property Loss Report. Refer to SP-F-I.5 for the automobile accident claim procedures and SP-F-I.6 for reporting property loss.

12. TRAFFIC VIOLATIONS

- A. Employees will be solely responsible for any fines and fees associated with traffic or parking violations or any other motor vehicle infraction. Failure to reimburse the Company (for any delinquent fine or fee) within 60 days of notification of the amount due will result in deduction from the employee's paycheck.
- B. Employees must notify the Human Resources department regarding any status changes in their driving license due to traffic violations. Failure of such notification may result in discipline up to and including termination.

This policy is subject to changes by the Company at any time with or without notice.

 Robert J. Howard
 VP - Human Resources

Date

 Stan Hasselbusch
 President & CEO

Date

ADDENDUM

Vehicle selections and options may be changed from time to time with the approval of the Chief Executive Officer.

2005 MODEL YEAR VEHICLE OPTIONS

CLASS:	VEHICLE OPTION
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A	Choice of Car
---	---------------

B	Chrysler 300M
---	---------------

C	Dodge Charger Dodge Magnum
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D	Chrysler Sebring
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PICKUP TRUCK	Dodge Ram Series
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COMPANY ORDERED CARS ARE GENERALLY EQUIPPED WITH THE FOLLOWING OPTIONS:

- V6 ENGINES
- AUTOMATIC TRANSMISSIONS
- AIR CONDITIONING
- CRUISE CONTROL
- POWER DRIVER SEATS
- AM/FM RADIO WITH SINGLE CD PLAYER
- POWER WINDOWS AND DOOR LOCKS
- FLOOR MATS
- TILT WHEEL
- POWER SIDE MIRROR(S)
- REMOTE KEYLESS ENTRY

LEASED VEHICLE ODOMETER FORM

***Form must be received by November 10th or 100% personal use will be used. ***

Employee: _____ Cost Center _____

Employee #: _____ Driver's License #: _____

Your assigned vehicle is used for: [] Business and personal use
[] 100% Personal use

Your license plate #: _____ State in which licensed: _____

PART A: CURRENT LEASED VEHICLE INFORMATION
(TO BE COMPLETED BY ALL EMPLOYEES ASSIGNED A LEASED VEHICLE)

Car #: _____ Year, make, and model: _____

License plate #: _____

ODOMETER

	Reading	Change	Business	Personal
	-----	-----	-----	-----
November 1, _____ Or the date vehicle was put into service.		N/A	N/A	N/A
October 31, _____				

PART B: REPLACED LEASED VEHICLE INFORMATION
(TO BE COMPLETED BY ALL EMPLOYEES WHO WERE ASSIGNED MORE THAN ONE LEASED VEHICLE BETWEEN NOVEMBER 1ST AND OCTOBER 31ST)

Car #: _____ Year, make, and model: _____

License plate #: _____

ODOMETER

	Reading	Change	Business	Personal
	-----	-----	-----	-----
November 1, _____ Date vehicle retired		N/A	N/A	N/A

I certify to the best of my knowledge that this form represents a true and accurate reading of my L. B. Foster leased vehicle as of _____

I also understand that I may be subject to tax penalties if I cannot substantiate the business use of this automobile and I further authorize the Company to obtain a State Motor Vehicle Driver History Report on me including any medical information contained therein.

Signature _____ Date _____

ACKNOWLEDGMENT

PLEASE CHECK OFF THE APPROPRIATE BOX INDICATING YOUR CHOICE AND SIGN AT THE BOTTOM.

COMPANY LEASED VEHICLE []

I, _____, acknowledge that I have read and will
Print Name comply with all requirements contained
within the Company's leased vehicle
policy.

MONTHLY CAR ALLOWANCE [] CLASS A, B, AND C ONLY

I, _____, acknowledge that I have valid proof of
Print Name insurance and I have attached a copy of
the insurance to this acknowledgement.

Driver's signature Date

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements Nos. 33-17073, 33-35152, 33-79450, 333-65885, 333-81535, and 333-60488 of L. B. Foster Company and in the related Prospectus of our reports dated March 3, 2006, with respect to the consolidated financial statements and schedule of L. B. Foster Company, L. B. Foster Company management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of L. B. Foster Company, included in this Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
March 13, 2006

**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

**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

**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