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# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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## L.B. Foster Company (FSTR)

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DAVID J. RUSSO is Senior Vice President, Treasurer and Chief Financial Officer of the L.B. Foster Company. He is responsible for all accounting, financial reporting, treasury, credit and information technology functions of the company. Mr. Russo, along with President and CEO Stan L. Hasselbusch, is also responsible for the company's M&A activities. Mr. Russo joined L.B. Foster in July 2002 after serving as the Corporate Controller and Chief Accounting Officer of WESCO Distribution in Pittsburgh, Pennsylvania, a distributor of electrical and industrial MRO supplies. Prior to WESCO, Mr. Russo was the Corporate Controller of Life Fitness, Inc., an international designer, manufacturer and distributor of aerobic and strength training fitness equipment headquartered in Franklin Park, Illinois. Mr. Russo was a member of the original management team that purchased Life Fitness from Bally Manufacturing in 1991 and grew the business from \$90 million in revenues to \$300 million under private equity ownership before selling the company to the Brunswick Corporation. Mr. Russo graduated from the University of Notre Dame in 1980 with a BBA in Accounting.

**TWST: Please begin with a brief historical sketch of the company and a picture of the things you are doing right now.**

**Mr. Russo:** The company actually was started by our current Chairman Lee Foster's grandfather back in 1902 in the used rail business. He would purchase rail from local railroads and grade it out and then resell the rail with a guarantee that it would be adequate for the needs of local coal mines, steel mills, what have you. We are actually still in that business today; we still provide that same guarantee. But we are also into a lot of different businesses. We are in the energy and utility market with tubular products. We are obviously still in the rail industry and we've increased our position in the rail marketplace. We sell construction products related primarily to transportation infrastructure as well as heavy civil construction projects.

**TWST: What have been the principal drivers of the company's success?**

**Mr. Russo:** There have been a few things. We have, I think, done a pretty nice job taking a look at what has and hasn't worked

for us in the past. We've shed several businesses over the past six years that weren't a good strategic fit for the company. We have purchased a couple of businesses that have worked quite nicely for us. And we've very recently, within the last four to five years, invested in organic business growth and have grown rather substantially in a couple of different areas across the company. That has really been our key strategy up to this point, along with some basic strategies to improve our processes and increasing and improving our touch points with our customers and our suppliers.

**TWST: What is the competitive landscape like? What are your competitive advantages?**

**Mr. Russo:** It's actually quite competitive and we expect it to get more competitive because we see more competition coming from overseas than we had in the past, not only from an import basis, but foreign companies looking to set up shop here in the States. A lot of that is being driven by the exchange rates today as well as the fact that the foreign companies still see a growth opportunity in the

United States, especially in the rail industry. As far as any competitive advantages that we have, I would tell you that those relate primarily to a lot of what we do in our manufacturing businesses, the services that we provide to our customers and the reputation that we have built over the past 10 years.

**TWST: What are the main opportunities that lie ahead for L.B. Foster?**

**Mr. Russo:** We see strength in all of the segments that we participate in today over the next several years. We have doubled our revenues over the past four years, all organically, and we are still going to push for organic growth. We think over the next couple of years, though, most of our growth opportunities lie in the external acquisition arena.

**TWST: What would be your criteria for acquisitions?**

**Mr. Russo:** We are looking at businesses that are accretive to the company's results, at least starting in year two. We have limits as far as leverage ratios that we would go to. The businesses themselves need to be strategic to what we currently do and obviously within our range of competencies. We are not going to go out and buy a chipmaker by any means. But there are a lot of different products and services in the rail and construction industry that we actually are looking at.

believe, will hold for quite a while. The initiatives beneath our strategies may change, but they relate to continuing to improve our processes in our manufacturing plants and in our day-to-day business processes. Training our employees, we believe, is critical. As I mentioned to you, we've doubled in size, we've added a couple of different product lines and we expect to do more of that and hopefully complete a couple of acquisitions. We are going to be asking our employees to do more and increase the breadth of our abilities. We will get there with training as well as adding some key people from the outside. But we believe we've got a great employee base today and we want to invest in them as well. Then certainly, as I mentioned before, really increasing the quantity and quality of the touch points with our customers. A lot of our business is distribution. We have a strategic supply chain that is crucial to us and we look to add value to those companies we view as partners.

**TWST: Would you elaborate on improving your touch points with customers?**

**Mr. Russo:** A lot of what we do from a manufacturing standpoint, and certainly the quality of what we sell, is crucial for the railroads because they've got lines they need to keep running. Everything we sell to them that goes into the track infrastructure has to be of the best quality. That is key. Our engineering and manufacturing

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**TWST: In term of the company's success, what particularly was so good in the last four years?**

**Mr. Russo:** I would tell you, a lot of it relates to the fact that our markets have been very strong. The rail, construction and the energy markets really all picked up starting in probably late 2003, but certainly by mid-2004, and grew substantially. They got stronger, along with the economy, and we have participated in that strength. We think we've done a good job to maximize our profitability during those periods. We have built an infrastructure in the company from which we can grow as well as improve on what we do so that at some point in the future, if there is a downturn, we can better weather that storm and mitigate the negative impacts.

**TWST: What is on your agenda for the next two to three years?**

**Mr. Russo:** Our agenda for the next two to three years really relates to some of our primary strategies and our strategies, we

people work with not just our rail industry customers but also our energy transmission industry and our construction industry customers. We feel very strongly about quality and we believe our customers value it. We believe that has given us a key advantage against some of our competition. I also mentioned to you that we do a lot of distribution and that becomes somewhat of a commodity business. A lot of times we believe that customers select suppliers that are easy to do business with. We are not always easy to do business with, but we strive to improve upon that everyday. That's some of what we are trying to do a better job of today and over the next five years.

**TWST: Is there anything on the political horizon that could affect you one way or the other?**

**Mr. Russo:** We don't see anything over the next year or two that could have a huge impact, except for the country's ability and willingness to spend on infrastructure. It is somewhat self-serving but we believe that the country is woefully underspent in several

areas. Our nation's highways, bridges and ports, and to a certain extent rail infrastructure, have been underdeveloped and underspent for a number of years. We are just getting by today; you've heard about the tragedy that occurred in Minnesota last year with a bridge collapsing. An enormous number of bridges that are deemed to be unfit right now are being monitored by various government agencies. We also believe that unlike Europe and other countries, this country has not adequately invested in mass transit systems. We believe that if there is any positive that could occur for the country, and certainly for L.B. Foster, it would be a change to that philosophy.

**TWST: Can you see any real problems lying ahead for you?**

**Mr. Russo:** We worry about the economy. A bad economy will probably hit us with maybe a six to nine months lag, but it will certainly have an impact. A lot of what we do in the construction business is civil or public works types of projects and those are certainly dependent not only on national transportation and infrastructure spending, but also on the health of state budgets because they share in that spending as well. And to the extent that the economy worsens and the tax base is diminished, that will certainly have a negative impact on spending on those projects.

**TWST: What would you reasonably expect the company to look like in about three years?**

**Mr. Russo:** I would hope to see a company that has improved its internal processes and I would like to see a couple of significant strategic acquisitions that have been integrated into the company as well.

**TWST: What would be involved in improving internal processes?**

**Mr. Russo:** We as a company began to adopt lean enterprise back in 2004 and we started that implementation at our manufacturing facilities. We've gotten some nice improvements in a number of our facilities due to that initiative and we are also taking that into our everyday business practices now and attempting to basically cut the waste out of those processes.

**TWST: Would you tell us about your own background and expertise and the same for one or two of your colleagues?**

**Mr. Russo:** I came up from the traditional financial side. I graduated from the University of Notre Dame with a BA in Business Administration and a concentration in Accounting. I worked for a CPA firm for a couple of years, passed the CPA and went to work for a company named Bally Manufacturing as Accounting Manager. I got into external SEC financial reporting, and then went to a company called Life Fitness as their Corporate Controller. They are an international designer and manufacturer of fitness equipment. We actually LBO'd that company from Bally, and ran it for six years. It was great experience. We then sold it to the Brunswick Corporation and they are still part of the Brunswick Corporation today. After that, I moved to a company called WESCO Distribution as their Corporate Controller. We took it public in 1999 and I was there for about four years as their

Controller and then came to L.B. Foster. It was a fairly traditional accounting background. What I have really enjoyed at L.B. Foster is having an ability to make an impact, hopefully a positive impact.

I'm working with a very good and quality management team. The management team here is a nice mix of individuals who have been here for the majority of their careers and also a few other individuals who have been here anywhere from three to six years. We are the new ones on the block. It's a very nice mix. We have a Senior Vice President of Construction Products, Don Foster. He has a great background, primarily United States Steel Corporation, knows that industry extremely well. He has provided a great sense of marketing and customer service to the company. We also have an individual who has been with the company, I believe, just about her entire career, Merry Brumbaugh. She is our Vice President of Tubular Products and has helped to lead the company with her commitment to quality, quality systems and continuous improvement. Stan Hasselbusch, our President and CEO, has been with the company his entire career and came up through the sales side, primarily through the construction products group. We have got a great team and there are several others who contribute greatly as well, Sam Fisher, our Senior Vice President of Rail Products and John Kasel, our Senior Vice President of Manufacturing and Operations.

**TWST: Do you see any need to improve the company's capital structure?**

**Mr. Russo:** I would tell you today our capital structure is actually fine. We probably are going to have to change it at some point when we have a better idea as to what some of our acquisitions are going to look like, what the operating results and cash flows are and what the predictability of those results and cash flows are going to be post acquisition. I think then we will be able to do a better job of determining what our capital structure needs to look like. Just to rehash a little recent history, the company had an investment in a regional railroad in the Upper Midwest portion of the country that is called Dakota, Minnesota & Eastern Railroad. We sold that investment in October 2007 for a substantial amount of money. Our proceeds on the sale were approximately \$149 million. We are sitting on a sizable amount of cash, very little debt and so we do have the wherewithal to follow through on the acquisition strategy that we discussed earlier. But only then will we really have a better idea as to what our capital structure should look like.

**TWST: Do you feel that the investment community understands the company pretty well?**

**Mr. Russo:** I do, I would tell you at least better than they used to. Just three years ago we were a very quiet and not a very well known company. In 2005 we began to reach out to the investor community in a much more robust way, starting with investor conference calls to discuss earnings on a quarterly basis. We have also made numerous marketing trips to visit with potential investors. We have attended several investor forums and conferences, and our name has certainly gotten out a lot more over the past two-and-a-half to three years.

**TWST: What would be the two or three best reasons for the long-term investor to look very closely at L.B. Foster?**

**Mr. Russo:** I would tell you that we believe that the markets we participate in are not only strong today, but are going to remain strong for the foreseeable future. And that, coupled with our commitment to continuous improvements internally as well as growth via acquisition, gives us quite a promising future.

**TWST: Is there anything that you would like to add, especially regarding strategies, long-term objectives and reasons for an investor to look at the company?**

**Mr. Russo:** I think what I have already told you is really what we are all about. The only other thing that we have recently put on our radar screen is looking at more than just the domestic arena; we are looking also at the global arena. While we believe today that international acquisitions represent some risk for the company, we are going to be looking at some international opportunities.

**TWST: In any particular parts of the world?**

**Mr. Russo:** The Far East and Europe, primarily.

**TWST: Is there anything that you would like to add?**

**Mr. Russo:** Just that our past success has largely been due to the contributions of our colleagues and our management team. I appreciate that very much and we look to continue that as we move forward.

**TWST: Thank you.**

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