HARSCO CORP
Form 10-Q
August 07, 2008

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-3970

HARSCO CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	23-1483991 (I.R.S. employer identification number)
350 Poplar Church Road, Camp Hill, Pennsylvania (Address of principal executive offices)	17011 (Zip Code)

Registrant's telephone number, including area code 717-763-7064

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

Class	Outstanding at July 31, 2008
Common stock, par value $1.25 per share	84,309,181

HARSCO CORPORATION

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands, except per share amounts)	2008	2007	2008	2007
Revenues from continuing operations:				
Service revenues	$ 944,490	$ 810,429	$ 1,797,118	$ 1,533,244
Product revenues	155,098	135,720	290,260	252,931
Total revenues	1,099,588	946,149	2,087,378	1,786,175
Costs and expenses from continuing operations:				
Cost of services sold	686,531	585,677	1,324,589	1,124,215
Cost of products sold	105,215	97,580	198,162	184,659
Selling, general and administrative expenses	160,332	127,313	316,964	255,068
Research and development expenses	1,508	734	2,561	1,727
Other (income) expenses	163	(1,003)	(117)	(1,916)
Total costs and expenses	953,749	810,301	1,842,159	1,563,753
Operating income from continuing operations	145,839	135,848	245,219	222,422
Equity in income of unconsolidated entities, net	246	285	650	413
Interest income	886	1,173	1,800	2,212
Interest expense	(19,075)	(20,540)	(36,194)	(39,116)
Income from continuing operations before income taxes and minority interest	127,896	116,766	211,475	185,931
Income tax expense	(35,000)	(37,388)	(59,188)	(58,989)
Income from continuing operations before minority interest	92,896	79,378	152,287	126,942
Minority interest in net income	(2,525)	(2,335)	(5,025)	(4,459)
Income from continuing operations	90,371	77,043	147,262	122,483
Discontinued operations:				
Income (loss) from discontinued business	(841)	8,379	(586)	11,500
Income tax expense	353	(2,353)	246	(3,260)
Income (loss) from discontinued operations	(488)	6,026	(340)	8,240
Net Income	$ 89,883	$ 83,069	$ 146,922	$ 130,723
Average shares of common stock outstanding	84,271	84,145	84,323	84,097

Basic earnings per common share:								
Continuing operations	$	1.07	$	0.92	$	1.75	$	1.46
Discontinued operations		(0.01)		0.07		(0.00)		0.10
Basic earnings per common share	$	1.07(a)	$	0.99	$	1.74(a)	$	1.55(a)
Diluted average shares of common stock outstanding		84,751		84,702		84,801		84,641
Diluted earnings per common share:								
Continuing operations	$	1.07	$	0.91	$	1.74	$	1.45
Discontinued operations		(0.01)		0.07		(0.00)		0.10
Diluted earnings per common share	$	1.06	$	0.98	$	1.73(a)	$	1.54(a)
Cash dividends declared per common share	$	0.1950	$	0.1775	$	0.3900	$	0.3550

(a) Does not total due to rounding.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	June 30 2008	December 31 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 123,309	$ 121,833
Trade accounts receivable, net	907,802	779,619
Other receivables	59,895	44,475
Inventories	368,108	310,931
Other current assets	99,165	88,016
Assets held-for-sale	1,261	463
Total current assets	1,559,540	1,345,337
Property, plant and equipment, net	1,710,827	1,535,214
Goodwill, net	744,662	720,069
Intangible assets, net	178,278	188,864
Other assets	119,850	115,946
Total assets	$ 4,313,157	$ 3,905,430
LIABILITIES		
Current liabilities:		
Short-term borrowings	$ 140,217	$ 60,323
Current maturities of long-term debt	8,096	8,384
Accounts payable	370,652	307,814
Accrued compensation	95,136	108,871
Income taxes payable	35,310	41,300
Dividends payable	16,437	16,444
Insurance liabilities	53,240	44,823
Advances on contracts	82,380	52,763
Other current liabilities	251,440	233,248
Total current liabilities	1,052,908	873,970
Long-term debt	1,039,476	1,012,087
Deferred income taxes	183,350	174,423
Insurance liabilities	67,919	67,182
Retirement plan liabilities	107,939	120,536
Other liabilities	98,963	91,113
Total liabilities	2,550,555	2,339,311
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS’ EQUITY		
Preferred stock, Series A junior participating cumulative preferred stock	—	—
Common stock	138,870	138,665
Additional paid-in capital	133,859	128,622
Accumulated other comprehensive income (loss)	94,251	(2,501)
Retained earnings	2,017,106	1,904,502
Treasury stock	(621,484)	(603,169)
Total stockholders’ equity	1,762,602	1,566,119
Total liabilities and stockholders’ equity	$ 4,313,157	$ 3,905,430

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Cash flows from operating activities:		
Net income	$ 146,922	$ 130,723
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	157,542	132,787
Amortization	15,449	12,959
Equity in income of unconsolidated entities, net	(650)	(414)
Dividends or distributions from unconsolidated entities	484	176
Other, net	(2,687)	(821)
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Accounts receivable	(104,705)	(93,118)
Inventories	(45,846)	(54,224)
Accounts payable	41,397	11,215
Accrued interest payable	15,818	15,057
Accrued compensation	(18,368)	(8,323)
Other assets and liabilities	5,057	50,579
Net cash provided by operating activities	210,413	196,596
Cash flows from investing activities:		
Purchases of property, plant and equipment	(258,283)	(201,202)
Net use of cash associated with the purchases of businesses	(13,575)	(227,323)
Proceeds from sale of assets	7,167	10,773
Other investing activities	15,279	(1,845)
Net cash used by investing activities	(249,412)	(419,597)
Cash flows from financing activities:		
Short-term borrowings, net	73,783	220,926
Current maturities and long-term debt:		
Additions	686,373	466,480
Reductions	(675,649)	(446,171)
Cash dividends paid on common stock	(32,899)	(29,837)
Common stock issued-options	1,276	3,899
Common stock acquired for treasury	(16,858)	—
Other financing activities	(3,436)	(3,448)
Net cash provided by financing activities	32,590	211,849
Effect of exchange rate changes on cash	7,885	5,819
Net increase (decrease) in cash and cash equivalents	1,476	(5,333)

Cash and cash equivalents at beginning of period	121,833	101,260
Cash and cash equivalents at end of period	$ 123,309	$ 95,927

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30	
(In thousands)	2008	2007
Net income	$ 89,883	$ 83,069
Other comprehensive income (loss):		
Foreign currency translation adjustments	14,411	28,129
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of ($745) and $5 in 2008 and 2007, respectively	1,846	(10)
Pension liability adjustments, net of deferred income taxes of ($937) and $242 in 2008 and 2007, respectively	2,342	(549)
Marketable securities, unrealized loss, net of deferred income taxes of $11 and $1 in 2008 and 2007, respectively	(20)	(2)
Reclassification adjustment for gain on cash flow hedging instruments included in net income, net of deferred income taxes of $2 and $1 in 2008 and 2007, respectively	(3)	(1)
Other comprehensive income	18,576	27,567
Total comprehensive income	$ 108,459	$ 110,636

	Six Months Ended June 30	
(In thousands)	2008	2007
Net income	$ 146,922	$ 130,723
Other comprehensive income (loss):		
Foreign currency translation adjustments	89,168	35,438
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of ($700) and $5 in 2008 and 2007, respectively	1,699	(10)
Pension liability adjustments, net of deferred income taxes of ($2,378) and ($4,148) in 2008 and 2007, respectively	5,930	9,474
Marketable securities, unrealized loss, net of deferred income taxes of $21 and $1 in 2008 and 2007, respectively	(39)	(2)
	(6)	(6)

Reclassification adjustment for gain on cash flow hedging instruments included in net income, net of deferred income taxes of $4 and $3 in 2008 and 2007, respectively				
Other comprehensive income		96,752		44,894
Total comprehensive income	$	243,674	$	175,617

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A. Opinion of Management

Financial information of Harsco Corporation and its majority-owned subsidiaries (the "Company") furnished herein, which is unaudited, in the opinion of management reflects all adjustments (all of which are of a normal recurring nature) that are necessary to present a fair statement of the interim period. The year-end condensed balance sheet information contained in this Form 10-Q was derived from 2007 audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America for a year-end report. The unaudited interim information contained herein should also be read in conjunction with the Company's 2007 Form 10-K filing. Certain reclassifications were made to prior year's amounts to conform with the current year presentation.

Operating results and cash flows for the three and six months ended June 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

B. Review of Operations by Segment

	Three Months Ended June 30, 2008		Three Months Ended June 30, 2007	
(In thousands)	Revenues	Operating Income (Loss)	Revenues	Operating Income (Loss)
Access Services Segment	$ 429,176	$ 58,134	$ 360,921	$ 49,305
Mill Services Segment	445,490	37,114	380,824	36,670
Segment Totals	874,666	95,248	741,745	85,975
All Other Category (Minerals & Rail Services and Products)	224,862	52,036	204,404	50,539
General Corporate	60	(1,445)	—	(666)
Consolidated Totals	$ 1,099,588	$ 145,839	$ 946,149	$ 135,848

	Six Months Ended June 30, 2008		Six Months Ended June 30, 2007	
(In thousands)	Revenues	Operating Income (Loss)	Revenues	Operating Income (Loss)
Access Services Segment	$ 808,000	$ 95,972	$ 677,130	$ 84,346
Mill Services Segment	862,206	66,321	741,594	68,978

Segment Totals	1,670,206	162,293	1,418,724	153,324
All Other Category (Minerals & Rail Services and Products)	417,052	85,978	367,451	69,918
General Corporate	120	(3,052)	—	(820)
Consolidated Totals	$ 2,087,378	$ 245,219	$ 1,786,175	$ 222,422

Reconciliation of Segment Operating Income to Consolidated Income from Continuing Operations Before Income Taxes and Minority Interest

(In thousands)	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Segment Operating Income	$ 95,248	$ 85,975	$ 162,293	$ 153,324
All Other Category (Minerals & Rail Services and Products)	52,036	50,539	85,978	69,918
General Corporate	(1,445)	(666)	(3,052)	(820)
Operating income from continuing operations	145,839	135,848	245,219	222,422
Equity in income of unconsolidated entities, net	246	285	650	413
Interest income	886	1,173	1,800	2,212
Interest expense	(19,075)	(20,540)	(36,194)	(39,116)
Income from continuing operations before income taxes and minority interest	$ 127,896	$ 116,766	$ 211,475	$ 185,931

C. Accounts Receivable and Inventories

At June 30, 2008 and December 31, 2007, Trade accounts receivable of $907.8 million and $779.6 million, respectively, were net of an allowance for doubtful accounts of $25.9 million and $25.6 million, respectively. The provision for doubtful accounts was $1.8 million and $1.9 million for the three months ended June 30, 2008 and 2007, respectively. For the six months ended June 30, 2008 and 2007, the provision for doubtful accounts was $3.2 million and $4.7 million, respectively. Other receivables include insurance claim receivables, employee receivables, tax claims receivable and other miscellaneous receivables not included in Trade accounts receivable, net.

Inventories consist of the following:

Inventories

(In thousands)	June 30 2008	December 31 2007
Finished goods	$ 201,190	$ 161,013
Work-in-process	24,907	23,776
Raw materials and purchased parts	86,272	76,735
Stores and supplies	55,739	49,407
Total Inventories	$ 368,108	$ 310,931

D. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	June 30 2008	December 31 2007
Land and improvements	$ 50,714	$ 47,250
Buildings and improvements	183,400	175,744
Machinery and equipment	3,307,969	2,997,425
Uncompleted construction	79,471	75,167
Gross property, plant and equipment	3,621,554	3,295,586
Less accumulated depreciation	(1,910,727)	(1,760,372)
Net property, plant and equipment	$ 1,710,827	$ 1,535,214

E. Goodwill and Other Intangible Assets

The following table reflects the changes in carrying amounts of goodwill by segment for the six months ended June 30, 2008:

Goodwill by Segment

(In thousands)	Access Services Segment	Mill Services Segment	All Other Category – Minerals & Rail Services and Products	Consolidated Totals
Balance as of December 31, 2007, net of accumulated amortization	$ 254,856	$ 348,311	$ 116,902	$ 720,069
Goodwill acquired (a)	11,626	—	—	11,626
Changes to goodwill (b)	1,336	(5,895)	266	(4,293)
Foreign currency translation	7,922	9,128	210	17,260
Balance as of June 30, 2008, net of accumulated amortization	$ 275,740	$ 351,544	$ 117,378	$ 744,662

(a) Relates to acquisitions of Baviera S.R.L., Buckley Scaffolding and Sovereign Access Services Limited, see Note F “Acquisition and Dispositions.”

(b) Relates principally to opening balance sheet adjustments.

Goodwill is net of accumulated amortization of $106.3 million and $103.7 million at June 30, 2008 and December 31, 2007, respectively. The change in accumulated amortization reflects foreign currency translation adjustments.

The following table reflects intangible assets by major category:

Intangible Assets

	June 30, 2008		December 31, 2007	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$ 160,921	$ 35,295	$ 157,717	$ 25,137
Non-compete agreements	3,483	3,102	3,382	2,952
Patents	6,871	4,423	6,805	4,241
Other	67,211	17,388	66,266	12,821
Total	$ 238,486	$ 60,208	$ 234,170	$ 45,151

During the first six months of 2008, the Company acquired the following intangible assets (by major class) which are subject to amortization.

Acquired Intangible Assets

(In thousands)	Gross Carrying Amount	Residual Value	Weighted-average Amortization Period
Customer relationships	$ 2,087	None	6 years
Non-compete agreements	78	None	2 years
Other	478	None	2 years
Total	$ 2,643		

There were no research and development assets acquired and written off in the first six months of 2008 or 2007.

Amortization expense for intangible assets was $7.3 million and $14.5 million for the second quarter and first six months of 2008, respectively. This compares with $7.3 million and $12.3 million for the second quarter and first six months of 2007, respectively. The following table shows the estimated amortization expense for the next five fiscal years based on current intangible assets:

(In thousands)	2008	2009	2010	2011	2012
Estimated amortization expense (a)	$28,400	$27,200	$26,700	$25,300	$12,600

(a) These estimated amortization expense amounts do not reflect the potential effect of future foreign currency exchange rate fluctuations.

F. Acquisitions and Dispositions

Acquisitions

In February 2008, the Company acquired Northern Ireland-based Buckley Scaffolding (“Buckley”), a provider of scaffolding and erection and dismantling services to customers in the construction, industrial and events businesses. Buckley recorded revenues of approximately $3 million in 2007 and has been included in the Access Services Segment.

In March 2008, the Company acquired Romania-based Baviera S.R.L. (“Baviera”), a distributor of formwork and scaffolding products in Romania. The acquisition of Baviera provides the Company with an operating platform in one of the fastest-growing construction markets in Eastern Europe. Baviera recorded revenues of approximately $3 million in 2007 and has been included in the Access Services Segment.

In April 2008, the Company acquired Sovereign Access Services Limited ("Sovereign"), a United Kingdom-based provider of mastclimber work platform rental equipment. Sovereign recorded revenues of approximately $7 million in 2007 and has been included in the Access Services Segment.

The above acquisitions, individually and in the aggregate, are not material to the Company's financial position and results of operations. Goodwill arising from the acquisitions will be subject to periodic impairment testing and acquired other intangible assets will be amortized over their estimated useful lives.

Dispositions

Consistent with the Company's strategic focus to grow and allocate financial resources to its industrial services businesses, on December 7, 2007, the Company sold its Gas Technologies business group to Wind Point Partners, a private equity investment firm based in Chicago, Illinois. The terms of the sale include a total purchase price of $340 million, including $300 million paid in cash at closing and $40 million payable in the form of an earnout contingent on the Gas Technologies group achieving certain performance targets in 2008 or 2009. The Company recorded a $26.4 million after-tax gain on the sale in the fourth quarter of 2007. The amount of this gain is not final at June 30, 2008, due to possible final working capital adjustments, as provided in the purchase agreement, and the potential earnout.

Assets Held for Sale

Throughout the past several years, management approved the sale of certain long-lived assets (primarily land and buildings) throughout the Company's operations. The net property, plant and equipment reflected as assets held-for-sale in the June 30, 2008 and December 31, 2007 Condensed Consolidated Balance Sheets was $1.3 million and $0.5 million, respectively.

G. Debt and Credit Agreements

In May 2008, the Company completed an offering in the United States of 5.75%, ten-year senior notes totaling $450.0 million. Net proceeds of $446.6 million were used to reduce the Company's U.S. and euro commercial paper borrowings by $286.4 million and $160.2 million, respectively. The notes include a covenant that permits the note holders to redeem their notes at 101% of par in the event of a change in control of the Company, or disposition of a significant portion of the Company's assets in combination with a downgrade of the Company's credit rating to non-investment grade. The Company was in compliance with this covenant at June 30, 2008.

The maturities of long-term debt for the five annual periods following June 30, 2008 are as follows:

(In millions)		
July 1, 2008 – June 30, 2009	$	8.1
July 1, 2009 – June 30, 2010		41.5
July 1, 2010 – June 30, 2011		398.4
July 1, 2011 – June 30, 2012		1.8
July 1, 2012 – June 30, 2013		—

The following table summarizes credit facilities and commercial paper programs and available credit at June 30, 2008.

(In millions)	Facility Limit	Outstanding Balance	Available Credit
U.S. commercial paper program	$ 550.0	$ 70.6	$ 479.4
Euro commercial paper program	315.8	65.2	250.6
Multi-year revolving credit facility (a)	450.0	—	450.0
364-day revolving credit facility (a)	450.0	—	450.0
Bilateral credit facility (b)	50.0	—	50.0
Totals at June 30, 2008	$ 1,815.8	$ 135.8	$ 1,680.0(c)

(a) U.S.-based program.
(b) International-based program.
(c) Although the Company has significant available credit, practically, the Company limits aggregate commercial paper and credit facility borrowings at any one time to a maximum of $950 million (the aggregate amount of the back-up facilities).

In conjunction with the note issuance and euro commercial paper program reduction noted above, the Company entered into a cross currency interest rate swap in order to lock in a fixed euro interest rate for $250.0 million of the borrowing. The swap expires in 2018 and had an unrealized gain of $1.1 million, net of $0.4 million of deferred taxes, included in Other comprehensive income at June 30, 2008.

H. Commitments and Contingencies

Royalty Expense Dispute

The Company was involved in a royalty expense dispute with the Canada Revenue Agency (“CRA”). The CRA disallowed certain expense deductions claimed by the Company’s Canadian subsidiary on its 1994-1998 tax returns. The Company completed settlement discussions with the CRA which resulted in a resolution and closure of the matter in the fourth quarter of 2007. The settlement resulted in a refund to the Company in the amount of approximately $5.9 million Canadian dollars, representing a refund of the payment made to the CRA in the fourth quarter of 2005, with the interest accrued on the 2005 settlement being utilized to satisfy the final assessment of $0.6 million Canadian dollars.

The Ontario Ministry of Finance (“Ontario”) also proposed to disallow certain expense deductions for the period 1994-1998. In July 2008, the Company and Ontario settled this matter in a manner consistent with the results obtained by the Company with the CRA. The settlement resulted in a total refund to the Company of approximately $4.9 million Canadian dollars, representing a refund of payments made to Ontario, plus accrued interest. A portion of these amounts was utilized to satisfy the final assessment of $0.4 million Canadian dollars.

Environmental

The Company is involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a “potentially responsible party” for certain waste disposal sites. While each of these matters is subject to various uncertainties, it is probable that the Company will agree to make payments toward funding certain of these activities and it is possible that some of these matters will be decided unfavorably to the

Company. The Company has evaluated its potential liability, and its financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Condensed Consolidated Balance Sheets at June 30, 2008, and December 31, 2007, include accruals of $4.3 million and $3.9 million, respectively, for environmental matters. The amounts charged against pre-tax income related to environmental matters totaled $0.8 million and $1.3 million for the first six months of 2008 and 2007, respectively.

The Company and an unrelated third party received a notice of violation in November 2007 from the United States Environmental Protection Agency (“the EPA”), in connection with an alleged violation by the Company and such third party of certain applicable federally enforceable air pollution control requirements in connection with the operation of a slag processing area located on the third party’s Pennsylvania facility. The Company and such third party have promptly taken steps to remedy the situation. The Company and the third party are negotiating with the EPA to resolve this matter and received a proposal of settlement from the EPA in May 2008. The Company has evaluated its potential liability and its financial exposure is dependent on such factors as the effectiveness of the remedial measures taken and the allocation of any penalty among the potentially responsible parties. The Company anticipates that its portion of any penalty would exceed \$0.1 million. However, the Company does not expect that any sum it may have to pay in connection with this matter would have a material adverse effect on its financial position, results of operations or cash flows.

The Company evaluates its liability for future environmental remediation costs on a quarterly basis. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. The Company does not expect that any sum it may have to pay in connection with environmental matters in excess of the amounts recorded or disclosed above would have a material adverse effect on its financial position, results of operations or cash flows.

Derailment

One of the Company's production rail grinders derailed near Baxter, California on November 9, 2006, resulting in two crew member fatalities and the near total loss of the rail grinder. Government and private investigations into the cause of the derailment are on-going. Most of the clean-up and salvage efforts were completed during 2007, and the site is in a closure monitoring phase. Estimated environmental remediation expenses to complete the clean-up have been recognized in the financial statements as of June 30, 2008. Following the incident, the Company's remaining rail grinders were inspected by the Federal Railroad Administration ("FRA") and each grinder was found to be in compliance with legal requirements. The Company also regularly inspects its grinders to ensure they are in proper working condition and in compliance with contractual commitments. The Company believes that the insurance proceeds already received from the loss of the rail grinder have offset the majority of incurred expenses, which have been recognized in the financial statements as of June 30, 2008, and insurance proceeds should be available to cover any future liabilities. Therefore, the Company does not believe that the derailment will have a material adverse effect on its financial position, results of operations, or cash flows.

Other

The Company has been named as one of many defendants (approximately 90 or more in most cases) in legal actions alleging personal injury from exposure to airborne asbestos over the past several decades. In their suits, the plaintiffs have named as defendants, among others, many manufacturers, distributors and installers of numerous types of equipment or products that allegedly contained asbestos.

The Company believes that the claims against it are without merit. The Company has never been a producer, manufacturer or processor of asbestos fibers. Any component within a Company product which may have contained asbestos would have been purchased from a supplier. Based on scientific and medical evidence, the Company believes that any asbestos exposure arising from normal use of any Company product never presented any harmful levels of airborne asbestos exposure, and moreover, the type of asbestos contained in any component that was used in those products was protectively encapsulated in other materials and is not associated with the types of injuries alleged in the pending suits. Finally, in most of the depositions taken of plaintiffs to date in the litigation against the Company, plaintiffs have failed to specifically identify any Company products as the source of their asbestos exposure.

The majority of the asbestos complaints pending against the Company have been filed in New York. Almost all of the New York complaints contain a standard claim for damages of \$20 million or \$25 million against the approximately 90 defendants, regardless of the individual plaintiff's alleged medical condition, and without specifically identifying any Company product as the source of plaintiff's asbestos exposure.

As of June 30, 2008, there are 26,292 pending asbestos personal injury claims filed against the Company. Of these cases, 25,751 were pending in the New York Supreme Court for New York County in New York State. The other claims, totaling 541, are filed in various counties in a number of state courts, and in certain Federal District Courts (including New York), and those complaints generally assert lesser amounts of damages than the New York State court cases or do not state any amount claimed.

As of June 30, 2008, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in 17,770 cases.

In view of the persistence of asbestos litigation nationwide, which has not yet been sufficiently addressed either politically or legally, the Company expects to continue to receive additional claims. However, there have been developments during the past several years, both by certain state legislatures and by certain state courts, which could favorably affect the Company's ability to defend these asbestos claims in those jurisdictions. These developments include procedural changes, docketing changes, proof of damage requirements and other changes that require plaintiffs to follow specific procedures in bringing their claims and to show proof of damages before they can proceed with their claim. An example is the action taken by the New York Supreme Court (a trial court), which is responsible for managing all asbestos cases pending within New York County in the State of New York. This Court issued an order in December 2002 that created a Deferred or Inactive Docket for all pending and future asbestos claims filed by plaintiffs who cannot demonstrate that they have a malignant condition or discernable physical impairment, and an Active or In Extremis Docket for plaintiffs who are able to show such medical condition. As a result of this order, the majority of the asbestos cases filed against the Company in New York County have been moved to the Inactive Docket until such time as the plaintiff can show that they have incurred a physical impairment. As of June 30, 2008, the Company has been listed as a defendant in 396 Active or In Extremis asbestos cases in New York County. The Court's Order has been challenged by plaintiffs.

The Company's insurance carrier has paid all legal and settlement costs and expenses to date. The Company has liability insurance coverage under various primary and excess policies that the Company believes will be available, if necessary, to substantially cover any liability that might ultimately be incurred on these claims.

The Company intends to continue its practice of vigorously defending these cases as they are listed for trial. It is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although results of operations and cash flows for a given period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate outcome of these cases will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company is subject to various other claims and legal proceedings covering a wide range of matters that arose in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Insurance liabilities are recorded in accordance with SFAS 5, "Accounting for Contingencies." Insurance reserves have been estimated based primarily upon actuarial calculations and reflect the undiscounted estimated liabilities for ultimate losses including claims incurred but not reported. Inherent in these estimates are assumptions which are based on the Company's history of claims and losses, a detailed analysis of existing claims with respect to potential value, and current legal and legislative trends. If actual claims differ from those projected by management, changes (either increases or decreases) to insurance reserves may be required and would be recorded through income in the period the change was determined. When a recognized liability is covered by third-party insurance, the Company records an insurance claim receivable to reflect the covered liability. Insurance claim receivables are included in Other receivables in the Company's Balance Sheet. See Note 1, "Summary of Significant Accounting Policies," of the Company's Form 10-K for the year ended December 31, 2007, for additional information on Accrued Insurance and Loss Reserves.

As indicated in Note F, "Acquisitions and Dispositions," the working capital adjustments associated with the Gas Technologies divestiture have not yet been finalized. The estimated amount of the adjustment considered probable by the Company is reflected in the Company's financial statements as of June 30, 2008. Any additional final adjustment amounts are not expected to be material to the Company's financial position, results of operations or cash flows.

I. Reconciliation of Basic and Diluted Shares

(Amounts in thousands, except per share data)	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Income from continuing operations	$ 90,371	$ 77,043	$ 147,262	$ 122,483
Average shares of common stock outstanding used to compute basic earnings per common share	84,271	84,145	84,323	84,097
Dilutive effect of stock-based compensation	480	557	478	544
Average shares of common stock outstanding used to compute diluted earnings per common share	84,751	84,702	84,801	84,641
Basic earnings per common share from continuing operations	$ 1.07	$ 0.92	$ 1.75	$ 1.46
Diluted earnings per common share from continuing operations	$ 1.07	$ 0.91	$ 1.74	$ 1.45

All outstanding stock options and restricted stock units were included in the computation of diluted earnings per common share at June 30, 2008 and 2007.

J. Employee Benefit Plans

Defined Benefit Pension (Income) Expense:	Three Months Ended June 30			
	U. S. Plans		International Plans	
(In thousands)	2008	2007	2008	2007
Defined benefit plans:				
Service cost	$ 373	$ 783	$ 2,410	$ 2,105
Interest cost	3,727	3,868	13,958	12,414
Expected return on plan assets	(5,862)	(5,641)	(16,225)	(15,183)
Recognized prior service costs	83	212	256	229
Recognized losses	292	315	2,898	3,834
Amortization of transition liability	—	—	10	7
Curtailment/settlement loss	—	544	—	—
Defined benefit plans pension (income) expense	(1,387)	81	3,307	3,406
Less Discontinued Operations included in above	—	320	—	117
Defined benefit plans pension (income) expense – continuing	$ (1,387)	$ (239)	$ 3,307	$ 3,289

operations

Defined Benefit Pension (Income) Expense:	Six Months Ended June 30			
	U. S. Plans		International Plans	
(In thousands)	2008	2007	2008	2007
Defined benefit plans:				
Service cost	$ 994	$ 1,526	$ 4,802	$ 4,191
Interest cost	7,743	7,733	27,939	24,563