

CHICAGO BRIDGE & IRON CO N V

Form 10-Q

May 01, 2008

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended March 31, 2008**

**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 1-12815  
CHICAGO BRIDGE & IRON COMPANY N.V.**

Incorporated in The Netherlands

IRS Identification Number: Not Applicable

Oostduinlaan 75  
2596 JJ The Hague  
The Netherlands  
31-70-3732722

(Address and telephone number of principal executive offices)

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  No

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

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

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

The number of shares outstanding of the registrant's common stock as of April 30, 2008 97,033,262.

**CHICAGO BRIDGE & IRON COMPANY N.V.**  
**Table of Contents**

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1 Condensed Consolidated Financial Statements	
<u>Statements of Income</u>	
<u>Three Months Ended March 31, 2008 and 2007</u>	3
<u>Balance Sheets</u>	
<u>March 31, 2008 and December 31, 2007</u>	4
<u>Statements of Cash Flows</u>	
<u>Three Months Ended March 31, 2008 and 2007</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4 Controls and Procedures</u>	25
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1 Legal Proceedings</u>	26
<u>Item 1A Risk Factors</u>	28
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 3 Defaults Upon Senior Securities</u>	29
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	29
<u>Item 5 Other Information</u>	29
<u>Item 6 Exhibits</u>	29
<b><u>SIGNATURES</u></b>	30
<u>Certification Pursuant to Section 302</u>	
<u>Certification Pursuant to Section 302</u>	
<u>Certification Pursuant to Section 906</u>	
<u>Certification Pursuant to Section 906</u>	

**Table of Contents**CHICAGO BRIDGE & IRON COMPANY N.V.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME*(In thousands, except per share data)***(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
Revenue	\$ 1,439,424	\$ 857,305
Cost of revenue	1,313,401	773,966
Gross profit	126,023	83,339
Selling and administrative expenses	63,939	36,838
Intangibles amortization	5,893	132
Other operating income, net	(95)	(428)
Earnings of investees accounted for by the equity method	(5,970)	
Income from operations	62,256	46,797
Interest expense	(4,501)	(1,078)
Interest income	3,247	8,071
Income before taxes and minority interest	61,002	53,790
Income tax expense	(17,081)	(16,137)
Income before minority interest	43,921	37,653
Minority interest in income	(1,748)	(1,058)
Net income	\$ 42,173	\$ 36,595
Net income per share:		
Basic	\$ 0.44	\$ 0.38
Diluted	\$ 0.43	\$ 0.38
Weighted average shares outstanding:		
Basic	96,052	95,533
Diluted	97,070	96,738
Cash dividends on shares:		
Amount	\$ 3,868	\$ 3,860
Per share	\$ 0.04	\$ 0.04

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

**Table of Contents**

CHICAGO BRIDGE & IRON COMPANY N.V.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
*(In thousands, except share data)*

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Cash and cash equivalents	\$ 405,664	\$ 305,877
Accounts receivable, net of allowance for doubtful accounts of \$4,173 in 2008 and \$4,230 in 2007	528,830	636,566
Contracts in progress with costs and estimated earnings exceeding related progress billings	560,840	593,095
Deferred income taxes	28,862	20,400
Other current assets	131,629	118,095
<b>Total current assets</b>	<b>1,655,825</b>	<b>1,674,033</b>
Equity investments	116,477	117,835
Property and equipment, net	278,989	254,402
Non-current contract retentions	3,609	3,389
Deferred income taxes	1,486	6,150
Goodwill	941,847	942,344
Other intangibles	259,901	265,794
Other non-current assets	64,140	66,976
<b>Total assets</b>	<b>\$3,322,274</b>	<b>\$3,330,923</b>
<b>Liabilities</b>		
Notes payable	\$	\$ 930
Current maturity of long-term debt	40,000	40,000
Accounts payable	815,993	864,673
Accrued liabilities	277,283	287,281
Contracts in progress with progress billings exceeding related costs and estimated earnings	919,807	963,841
Income taxes payable	14,124	13,058
<b>Total current liabilities</b>	<b>2,067,207</b>	<b>2,169,783</b>
Long-term debt	160,000	160,000
Other non-current liabilities	307,298	262,563
Minority interest in subsidiaries	13,602	11,858
<b>Total liabilities</b>	<b>2,548,107</b>	<b>2,604,204</b>

**Shareholders' Equity**

Common stock, Euro .01 par value; shares authorized: 250,000,000 in 2008 and 2007;

shares issued: 99,073,635 in 2008 and 2007;

shares outstanding: 96,951,856 in 2008 and 96,690,920 in 2007

Additional paid-in capital	1,154	1,154
Retained earnings	367,455	355,487
Stock held in Trust	479,133	440,828
Treasury stock, at cost; 2,121,779 shares in 2008 and 2,382,715 shares in 2007	(31,426)	(21,493)
Accumulated other comprehensive income	(68,113)	(69,109)
	25,964	19,852
<b>Total shareholders' equity</b>	<b>774,167</b>	<b>726,719</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$3,322,274</b>	<b>\$3,330,923</b>

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

**Table of Contents**CHICAGO BRIDGE & IRON COMPANY N.V.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS*(In thousands)***(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 42,173	\$ 36,595
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,278	7,193
Deferred taxes	(7,308)	6,878
Share-based compensation expense	13,394	6,871
Gain on sale of property, plant and equipment	(95)	(428)
Unrealized (gain) loss on foreign currency hedge ineffectiveness	(841)	617
Excess tax benefits from share-based compensation	(3,017)	(3,610)
Change in operating assets and liabilities (see below)	71,235	49,415
Net cash provided by operating activities	134,819	103,531
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(20,041)	(22,518)
Proceeds from sale of property, plant and equipment	166	1,405
Net cash used in investing activities	(19,875)	(21,113)
<b>Cash Flows from Financing Activities</b>		
Decrease in notes payable	(930)	(503)
Excess tax benefits from share-based compensation	3,017	3,610
Purchase of treasury stock associated with stock plans/repurchase program	(15,553)	(20,945)
Issuance of common stock associated with stock plans		1,262
Issuance of treasury stock associated with stock plans	2,177	1,697
Dividends paid	(3,868)	(3,860)
Net cash used in financing activities	(15,157)	(18,739)
Increase in cash and cash equivalents	99,787	63,679
Cash and cash equivalents, beginning of the year	305,877	619,449
Cash and cash equivalents, end of the period	\$405,664	\$683,128

**Change in Operating Assets and Liabilities**

Decrease in receivables, net	\$ 107,736	\$ 49,961
Change in contracts in progress, net	(25,401)	10,596
(Increase) decrease in non-current contract retentions	(220)	6,941
(Decrease) increase in accounts payable	(48,680)	740
Decrease (increase) in other current and non-current assets	2,533	(16,419)
Change in income taxes payable	7,839	3,723
Increase (decrease) in accrued and other non-current liabilities	25,763	(7,660)
Increase in other	1,665	1,533
Total	\$ 71,235	\$ 49,415

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.



**Table of Contents**

**CHICAGO BRIDGE & IRON COMPANY N.V.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**  
**(\$ values in thousands, except per share data)**  
**(Unaudited)**

**1. Significant Accounting Policies**

*Basis of Presentation* The accompanying unaudited condensed consolidated financial statements for Chicago Bridge & Iron Company N.V. ( CB&I or the Company ) have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the SEC ). In the opinion of management, our unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our financial position as of March 31, 2008, our results of operations for each of the three-month periods ended March 31, 2008 and 2007, and our cash flows for each of the three-month periods ended March 31, 2008 and 2007. The condensed consolidated balance sheet at December 31, 2007 is derived from the December 31, 2007 audited consolidated financial statements.

Although management believes the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) have been condensed or omitted pursuant to the rules and regulations of the SEC. The results of operations and cash flows for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2007.

*Revenue Recognition* Revenue is primarily recognized using the percentage-of-completion method. Our contracts are usually awarded on a competitive bid and negotiated basis. We offer our customers a range of contracting options, including fixed-price, cost reimbursable and hybrid approaches. Contract revenue is primarily accrued based on the percentage that actual costs-to-date bear to total estimated costs. We utilize this cost-to-cost approach as we believe this method is less subjective than relying on assessments of physical progress. We follow the guidance of Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, ( SOP 81-1 ) for accounting policies relating to our use of the percentage-of-completion method, estimating costs, revenue recognition, including the recognition of profit incentives, combining and segmenting contracts and unapproved change order/claim recognition. Under the cost-to-cost approach, while the most widely recognized method used for percentage-of-completion accounting, the use of estimated cost to complete each contract is a significant variable in the process of determining income earned and is a significant factor in the accounting for contracts. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates.

Contract revenue reflects the original contract price adjusted for approved change orders and estimated minimum recoveries of unapproved change orders and claims. We recognize revenue associated with unapproved change orders and claims to the extent that related costs have been incurred when recovery is probable and the value can be reliably estimated. At March 31, 2008 and December 31, 2007, we had projects with outstanding unapproved change orders/claims of \$109,263 and \$96,336, respectively, factored into the determination of their revenue and estimated costs. We anticipate reaching agreement with our customers during 2008.

Losses expected to be incurred on contracts in progress are charged to earnings in the period such losses are known. Charges to earnings include the reversal of any profit recognized on the project in prior periods. For the period ended March 31, 2008, we recognized provisions for additional costs associated with a project in a loss position in our Europe, Africa and Middle East ( EAME ) segment that resulted in a \$12,850 charge to earnings during the

**Table of Contents**

period. There were no significant provisions for additional costs associated with contracts projected to be in a material loss position during the period ended March 31, 2007.

Costs and estimated earnings to date in excess of progress billings on contracts in progress represent the cumulative revenue recognized less the cumulative billings to the customer. Any billed revenue that has not been collected is reported as accounts receivable. Unbilled revenue is reported as contracts in progress with costs and estimated earnings exceeding related progress billings on the condensed consolidated balance sheets. The timing of when we bill our customers is generally based on advance billing terms or contingent upon completion of certain phases of the work, as stipulated in the contract. Progress billings in accounts receivable at March 31, 2008 and December 31, 2007 included retentions totaling \$48,510 and \$58,780, respectively, to be collected within one year. Contract retentions collectible beyond one year are included in non-current contract retentions on the condensed consolidated balance sheets. Cost of revenue includes direct contract costs such as material and construction labor, and indirect costs which are attributable to contract activity.

*Foreign Currency* The nature of our business activities involves the management of various financial and market risks, including those related to changes in currency exchange rates. The effects of translating financial statements of foreign operations into our reporting currency are recognized in accumulated other comprehensive income/loss within shareholders' equity as cumulative translation adjustment, net of tax, which includes tax credits associated with the translation adjustment. Foreign currency exchange gains/(losses) are included in the condensed consolidated statements of income within cost of revenue.

*New Accounting Standards* The FASB has issued Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements ( SFAS No. 157 ) which defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, and accordingly, does not require any new fair value measurements. SFAS No. 157 became effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of this standard during the first quarter of 2008 did not have a material impact on our consolidated financial position, results of operations or cash flows. For specific disclosure requirements under this standard, see Note 6 to our condensed consolidated financial statements.

*Per Share Computations* Basic earnings per share ( EPS ) is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of dilutive securities, consisting of employee stock options, restricted shares, performance shares (where performance criteria have been met) and directors' deferred fee shares.

The following schedule reconciles the income and shares utilized in the basic and diluted EPS computations:

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Net income	\$42,173	\$36,595
Weighted average shares outstanding - basic	96,052	95,533
Effect of stock options/restricted shares/performance shares	955	1,142
Effect of directors' deferred fee shares	63	63
Weighted average shares outstanding - diluted	97,070	96,738
Net income per share		
Basic	\$ 0.44	\$ 0.38

Diluted

7

\$ 0.43

\$ 0.38

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**Table of Contents****2. Acquisitions**

On November 16, 2007, we acquired all of the outstanding shares of Lummus Global ( Lummus ) from Asea Brown Boveri Ltd. ( ABB ) for a purchase price of approximately \$820,871, net of cash acquired and including transaction costs. Lummus' s operations include on/near shore engineering, procurement, construction and technology operations. Lummus supplies a comprehensive range of services to the global oil, gas and petrochemical industries, including the design and supply of production facilities, refineries and petrochemical plants.

The balances included in the March 31, 2008 condensed consolidated balance sheet associated with this acquisition are based upon preliminary information and are subject to change when additional information concerning final asset and liability valuations is obtained.

**3. Stock Plans**

During the three months ended March 31, 2008 and 2007, we recognized \$13,394 and \$6,871, respectively, of share-based compensation expense reported as selling and administrative expense in the accompanying condensed consolidated statements of income. See Note 13 of our Consolidated Financial Statements in our 2007 Form 10-K for additional information related to our stock-based compensation plans.

During the three months ended March 31, 2008, we granted 180,614 stock options with a weighted-average per share fair value of \$19.62 and a weighted-average exercise price per share of \$46.23. Using the Black-Scholes option-pricing model, the fair value of each option grant was estimated on the date of grant based on the following weighted-average assumptions: risk-free interest rate of 3.30%, expected dividend yield of 0.35%, expected volatility of 40.22% and an expected life of 6 years.

Expected volatility is based on the historical volatility of our stock. We use historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

During the three months ended March 31, 2008, 397,995 restricted shares and 256,198 performance shares were granted, each with a weighted-average per share grant-date fair value of \$45.36.

The changes in common stock, additional paid-in capital, stock held in trust and treasury stock since December 31, 2007 primarily relate to activity associated with our stock plans. Our treasury stock also reflects the impact of our share repurchase program.

**4. Comprehensive Income**

Comprehensive income for the three months ended March 31, 2008 and 2007 are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Net income	\$42,173	\$36,595
Other comprehensive (loss) income, net of tax:		
Currency translation adjustment	(6,732)	635
Change in unrealized loss on debt securities		10
Change in unrealized fair value of cash flow hedges <sup>(1)</sup>	12,887	543
Change in unrecognized net prior service pension credits	(40)	(46)
Change in unrecognized net actuarial pension (gains) losses	(3)	19
Comprehensive income	\$48,285	\$37,756

**Table of Contents**

- (1) The total unrealized fair value gain on cash flow hedges is recorded under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS No. 133 ). The total cumulative unrealized fair value gain on cash flow hedges recorded within accumulated other comprehensive income as of March 31, 2008 totaled \$31,656, net of tax of \$3,743. Of this amount, \$30,168 of unrealized gain, net of tax of \$2,985, is expected to be reclassified into earnings during the next 12 months due to settlement of the related contracts. Offsetting the unrealized gain on cash flow hedges is an unrealized loss

on the underlying transactions, to be recognized when settled. See Note 6 to our condensed consolidated financial statements for additional discussion relative to our financial instruments.

Accumulated other comprehensive income reported on our balance sheet at March 31, 2008 includes the following, net of tax: \$4,536 of currency translation adjustment loss, \$31,656 of unrealized fair value gain on cash flow hedges, \$835 of unrecognized net prior service pension credits and \$1,991 of unrecognized net actuarial pension losses.

## 5. Goodwill and Other Intangibles

### Goodwill

At March 31, 2008 and December 31, 2007, our goodwill balances were \$941,847 and \$942,344, respectively, attributable to the excess of the purchase price over the fair value of assets and liabilities acquired relative to our recent acquisition of Lummus, as well as previous acquisitions within our North America and EAME segments. The decrease in goodwill primarily relates to a reduction in accordance with SFAS No. 109, Accounting for Income Taxes, where tax goodwill exceeded book goodwill in our North America segment. The change in goodwill for the three months ended March 31, 2008 is as follows:

	Total
Balance at December 31, 2007	\$ 942,344
Tax goodwill in excess of book goodwill	(492)
Foreign currency translation	(5)
Balance at March 31, 2008	\$ 941,847

*Impairment Testing* SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS No. 142 ) states that goodwill and indefinite-lived intangible assets are no longer amortized to earnings, but instead are reviewed for impairment at least annually via a two-phase process, absent any indicators of impairment. The first phase screens for impairment, while the second phase (if necessary) measures impairment. We have elected to perform our annual analysis during the fourth quarter of each year based upon goodwill balances as of the beginning of the fourth quarter. Impairment testing of goodwill is accomplished by comparing an estimate of discounted future cash flows to the net book value of each reporting unit. No indicators of goodwill impairment have been identified during 2008. There can be no assurance that future goodwill impairment tests will not result in additional charges to earnings.

### Other Intangible Assets

In accordance with SFAS No. 142, the following table provides information concerning our other intangible assets for the periods ended March 31, 2008 and December 31, 2007:

**Table of Contents**

	<b>March 31, 2008</b>		<b>December 31, 2007</b>	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets (weighted average life)				
Technology (15 years)	\$ 206,376	\$ (5,866)	\$ 206,376	\$ (2,417)
Tradenames (9 years)	38,817	(2,937)	38,817	(1,390)
Backlog (4 years)	14,800	(1,565)	14,800	(517)
Lease agreements (9 years)	6,600	542	6,600	180
Non-compete agreements (7 years)	6,200	(3,066)	6,200	(2,855)
Total amortizable intangible assets	\$ 272,793	\$ (12,892)	\$ 272,793	\$ (6,999)

The changes in other intangibles compared with 2007 relate to additional amortization expense totaling \$767, \$983 and \$4,143 within our North America, EAME and Lummus Technology segments, respectively.

**6. Financial Instruments**

**Forward Contracts** Although we do not engage in currency speculation, we periodically use hedges, primarily forward contracts, to mitigate certain operating exposures, as well as to hedge intercompany loans utilized to finance non-U.S. subsidiaries.

At March 31, 2008, our outstanding contracts to hedge intercompany loans and certain operating exposures are summarized as follows:

<b>Currency Sold</b>	<b>Currency Purchased</b>	<b>Contract Amount <sup>(1)</sup></b>	<b>Weighted Average Contract Rate</b>
<b>Forward contracts to hedge intercompany loans: <sup>(2)</sup></b>			
British Pound	U.S. Dollar	\$ 148,804	0.50
U.S. Dollar	Canadian Dollar	\$ 55,998	0.98
U.S. Dollar	Euro	\$ 23,015	0.65
U.S. Dollar	South African Rand	\$ 2,633	7.76
U.S. Dollar	Australian Dollar	\$ 95,848	1.08
U.S. Dollar	Czech Republic Koruna	\$ 18,961	16.03
U.S. Dollar	Singapore Dollar	\$ 5,445	1.37
<b>Contracts to hedge certain operating exposures: <sup>(3)</sup></b>			
U.S. Dollar	Euro	\$ 84,161	0.71
U.S. Dollar	Chilean Unidad de Fomento <sup>(4)</sup>	\$ 75,105	0.03
U.S. Dollar	British Pound	\$ 10,177	0.50
U.S. Dollar	Norwegian Krone	\$ 1,313	5.35
British Pound	Euro	£ 16,150	1.45
British Pound	Swiss Francs	£ 2,666	2.34
British Pound	Japanese Yen	£ 2,156	216.72

**(1)** Represents the notional U.S. dollar

equivalent at inception of the contract, with the exception of forward contracts to sell: 16,150 British Pounds for 23,411 Euros, 2,666 British Pounds for 6,228 Swiss Francs and 2,156 British Pounds for 467,321 Japanese Yen. These contracts are denominated in British Pounds and equate to approximately \$41,602 at March 31, 2008.



**Table of Contents**

- (2) These contracts, for which we do not seek hedge accounting treatment under SFAS No. 133, generally mature within seven days of quarter-end and are marked-to-market within cost of revenue in the condensed consolidated income statement, generally offsetting any translation gains/losses on the underlying transactions.
- (3) Represent primarily forward contracts that hedge forecasted transactions and firm commitments and generally mature within two years of quarter-end. Certain of our hedges are designated as cash flow hedges under SFAS No. 133. We exclude forward points, which represent the time value component of the fair value of our derivative positions, from our hedge assessment analysis. This time value component is recognized as ineffectiveness within cost of revenue in the condensed consolidated statement of income

and was an unrealized loss totaling approximately \$387 during the three months ended March 31, 2008. Additionally, certain of these hedges have become ineffective as it has become probable that their underlying forecasted transactions will not occur within their originally specified periods of time, or at all. The unrealized hedge fair value gain associated with these ineffective instruments, as well as instruments for which we do not seek hedge accounting treatment, totaled \$1,228 and was recognized within cost of revenue in the condensed consolidated statement of income. Our total unrealized hedge fair value gain recognized within cost of revenue for the three months ended March 31, 2008 was \$841.

- (4) Represents an inflationary-adjusted currency that is indexed to the Chilean Peso.

**Interest Rate Swap** During the fourth quarter of 2007 we entered a swap arrangement to hedge against interest rate variability associated with our \$200,000 term loan. The swap arrangement was designated as a cash flow hedge under SFAS No. 133 as the critical terms matched those of the term loan at inception and as of March 31, 2008.  
**SFAS 157**

As discussed in Note 1 to the condensed consolidated financial statements, we adopted SFAS 157 during the first quarter of 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. The new standard provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. The standard also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The standard requires consideration of our credit quality when valuing liabilities.

We reviewed our derivative valuations using all available evidence including recent transactions in the marketplace, indicative pricing services and the results of back-testing similar types of transactions. The adoption of SFAS 157 did not have a significant impact on our condensed consolidated statement of income or balance sheet for the period ending March 31, 2008.

**Valuation Hierarchy** SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**Table of Contents**

Following is a description of the valuation methodologies used for our instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Derivatives* Exchange traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of our derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps, forward contracts, and options. In some cases derivatives may be valued based upon models with significant unobservable market parameters. These would be classified within level 3 of the valuation hierarchy. As of March 31, 2008, we did not have any level 3 classifications.

The following table presents our financial instruments carried at fair value as of March 31, 2008, by caption on the condensed consolidated balance sheet and by SFAS 157 valuation hierarchy (as described above):

	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2) <sup>(1)</sup>	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the condensed consolidated balance sheet
<b>Assets</b>				
Other current assets	\$	\$ 35,339	\$	\$ 35,339
Other non-current assets		676		676
<b>Total Assets at fair value</b>	<b>\$</b>	<b>\$ 36,015</b>	<b>\$</b>	<b>\$ 36,015</b>
<b>Liabilities</b>				
Accrued liabilities	\$	\$ (4,998)	\$	\$ (4,998)
Other non-current liabilities		(6,410)		(6,410)
<b>Total Liabilities at fair value</b>	<b>\$</b>	<b>\$ (11,408)</b>	<b>\$</b>	<b>\$ (11,408)</b>

(1) These fair values are inclusive of outstanding forward contracts to hedge intercompany loans and certain

operating exposures, as well as the swap arrangement entered to hedge against interest rate variability associated with our \$200,000 term loan.

### 7. Retirement Benefits

We previously disclosed in our financial statements for the year ended December 31, 2007 that in 2008, we expected to contribute \$18,132 and \$3,759 to our defined benefit and other postretirement plans, respectively. The following table provides updated contribution information for our defined benefit and postretirement plans as of March 31, 2008:

	<b>Defined Benefit Plans</b>	<b>Other Postretirement Benefits</b>
Contributions made through March 31, 2008	\$ 10,112	\$ 492
Remaining contributions expected for 2008	8,832	2,571
Total contributions expected for 2008	\$ 18,944	\$ 3,063

**Table of Contents**

**Components of Net Periodic Benefit Cost**

<b>Three months ended March 31,</b>	<b>Defined Benefit Plans 2008</b>	<b>Other Postretirement Benefits</b>
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