HARSCO CORP
Form 10-Q
August 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2010

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 001-03970

HARSCO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**23-1483991**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
350 Poplar Church Road, Camp Hill, Pennsylvania	**17011**
(Address of principal executive offices)	(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, 2010
Common stock, par value $1.25 per share	80,470,844

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HARSCO CORPORATION

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands, except per share amounts)	Three Months Ended June 30 2010	Three Months Ended June 30 2009	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Revenues from continuing operations:				
Service revenues	**$ 638,387**	$ 616,217	**$ 1,237,433**	$ 1,178,649
Product revenues	**148,134**	160,758	**291,494**	295,216
Total revenues	**786,521**	776,975	**1,528,927**	1,473,865
Costs and expenses from continuing operations:				
Cost of services sold	**501,287**	471,490	**987,919**	912,109
Cost of products sold	**89,228**	101,143	**182,029**	197,409
Selling, general and administrative expenses	**133,763**	130,915	**270,090**	255,912
Research and development expenses	**770**	732	**1,685**	1,375
Other (income) expense	**(394)**	2,336	**(2,903)**	(470)
Total costs and expenses	**724,654**	706,616	**1,438,820**	1,366,335
Operating income from continuing operations	**61,867**	70,359	**90,107**	107,530
Interest income	**651**	512	**1,111**	1,057
Interest expense	**(15,411)**	(15,486)	**(31,530)**	(30,799)
Income from continuing operations before income taxes and equity income	**47,107**	55,385	**59,688**	77,788
Income tax expense	**(12,870)**	(12,473)	**(15,904)**	(13,984)
Equity in income of unconsolidated entities, net	**59**	65	**189**	152
Income from continuing operations	**34,296**	42,977	**43,973**	63,956
Discontinued operations:				
Loss from discontinued business	**(4,626)**	(2,157)	**(4,788)**	(3,911)
Income tax benefit	**1,791**	688	**2,204**	1,218
Loss from discontinued operations	**(2,835)**	(1,469)	**(2,584)**	(2,693)
Net Income	**31,461**	41,508	**41,389**	61,263
Less: Net income attributable to noncontrolling interests	**(1,798)**	(900)	**(3,692)**	(2,063)
Net Income attributable to Harsco Corporation	**$ 29,663**	$ 40,608	**$ 37,697**	$ 59,200
Amounts attributable to Harsco Corporation common stockholders:				
Income from continuing operations, net of tax	**$ 32,498**	$ 42,077	**$ 40,281**	$ 61,893
Loss from discontinued operations, net of tax	**(2,835)**	(1,469)	**(2,584)**	(2,693)
Net income attributable to Harsco Corporation common stockholders	**$ 29,663**	$ 40,608	**$ 37,697**	$ 59,200

Weighted average shares of common stock outstanding		**80,559**		80,289		**80,551**		80,269
Basic earnings per common share attributable to Harsco Corporation common stockholders:								
Continuing operations	**$**	**0.40**	$	0.52	**$**	**0.50**	$	0.77
Discontinued operations		**(0.04)**		(0.02)		**(0.03)**		(0.03)
Basic earnings per share attributable to Harsco Corporation common stockholders	**$**	**0.37**(a)	$	0.51(a)	**$**	**0.47**	$	0.74
Diluted weighted average shares of common stock outstanding		**80,735**		80,554		**80,739**		80,519
Diluted earnings per common share attributable to Harsco Corporation common stockholders:								
Continuing operations	**$**	**0.40**	$	0.52	**$**	**0.50**	$	0.77
Discontinued operations		**(0.04)**		(0.02)		**(0.03)**		(0.03)
Diluted earnings per share attributable to Harsco Corporation common stockholders	**$**	**0.37**(a)	$	0.50	**$**	**0.47**	$	0.74
Cash dividends declared per common share	**$**	**0.205**	$	0.20	**$**	**0.41**	$	0.40

(a) Does not total due to rounding.

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)		June 30 2010		December 31 2009
ASSETS				
Current assets:				
Cash and cash equivalents	$	**102,452**	$	94,184
Trade accounts receivable, net		**644,646**		598,318
Other receivables		**25,381**		30,865
Inventories		**262,500**		291,174
Other current assets		**155,478**		154,797
Total current assets		**1,190,457**		1,169,338
Property, plant and equipment, net		**1,358,700**		1,510,801
Goodwill		**663,888**		699,041
Intangible assets, net		**132,742**		150,746
Other assets		**142,540**		109,314
Total assets	$	**3,488,327**	$	3,639,240
LIABILITIES				
Current liabilities:				
Short-term borrowings	$	**61,141**	$	57,380
Current maturities of long-term debt		**55,429**		25,813
Accounts payable		**220,563**		215,504
Accrued compensation		**76,604**		67,652
Income taxes payable		**23,421**		5,931
Dividends payable		**16,491**		16,473
Insurance liabilities		**28,960**		25,533
Advances on contracts		**106,684**		149,413
Other current liabilities		**192,474**		187,403
Total current liabilities		**781,767**		751,102
Long-term debt		**852,848**		901,734
Deferred income taxes		**65,110**		90,993
Insurance liabilities		**56,488**		61,660
Retirement plan liabilities		**222,664**		250,075
Other liabilities		**57,965**		73,842
Total liabilities		**2,036,842**		2,129,406
COMMITMENTS AND CONTINGENCIES EQUITY				
Harsco Corporation stockholders equity:				
Preferred stock, Series A junior participating cumulative preferred stock				
Common stock		**139,458**		139,234
Additional paid-in capital		**140,686**		137,746
Accumulated other comprehensive loss		**(264,656)**		(201,684)
Retained earnings		**2,137,899**		2,133,297
Treasury stock		**(737,106)**		(735,016)
Total Harsco Corporation stockholders equity		**1,416,281**		1,473,577
Noncontrolling interests		**35,204**		36,257
Total equity		**1,451,485**		1,509,834
Total liabilities and equity	$	**3,488,327**	$	3,639,240

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)	Six Months Ended June 30 2010	2009
Cash flows from operating activities:		
Net income	**$ 41,389**	$ 61,263
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**139,918**	139,146
Amortization	**18,016**	13,556
Equity in income of unconsolidated entities, net	**(189)**	(152)
Dividends or distributions from unconsolidated entities	**176**	100
Other, net	**(14,337)**	(9,175)
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Accounts receivable	**(81,129)**	34,933
Inventories	**13,367**	20,927
Accounts payable	**16,771**	(67,122)
Accrued interest payable	**11,370**	10,987
Accrued compensation	**13,790**	(19,795)
Other assets and liabilities	**(33,492)**	(28,418)
Net cash provided by operating activities	**125,650**	156,250
Cash flows from investing activities:		
Purchases of property, plant and equipment	**(74,590)**	(82,579)
Purchases of businesses, net of cash acquired	**(27,643)**	(2,754)
Proceeds from sales of assets	**16,288**	11,034
Other investing activities	**1,720**	(815)
Net cash used by investing activities	**(84,225)**	(75,114)
Cash flows from financing activities:		
Short-term borrowings, net	**3,485**	(53,881)
Current maturities and long-term debt:		
Additions	**180,890**	241,725
Reductions	**(177,117)**	(244,349)
Cash dividends paid on common stock	**(32,964)**	(31,687)
Dividends paid to noncontrolling interests	**(3,948)**	(2,440)
Purchase of noncontrolling interest		(12,886)
Contributions of equity from noncontrolling interests	**354**	
Common stock issued-options	**437**	434
Net cash used by financing activities	**(28,863)**	(103,084)
Effect of exchange rate changes on cash	**(4,294)**	593
Net increase (decrease) in cash and cash equivalents	**8,268**	(21,355)
Cash and cash equivalents at beginning of period	**94,184**	91,336
Cash and cash equivalents at end of period	**$ 102,452**	$ 69,981

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

	Harsco Corporation Stockholders Equity						
(In thousands, except share and per share amounts)	**Common Stock Issued**	**Common Stock Treasury**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interests**	**Total**
Beginning Balances, January 1, 2009	$ 138,925	$ (733,203)	$ 137,083	$ 2,079,170	$ (208,299)	$ 36,296	$ 1,449,972
Net income				59,200		2,063	61,263
Cash dividends declared:							
Common @ $0.40 per share				(32,111)			(32,111)
Noncontrolling interests						(2,440)	(2,440)
Translation adjustments, net of deferred income taxes of ($18,958)					49,599	411	50,010
Cash flow hedging instrument adjustments, net of deferred income taxes of $9,667					(26,190)		(26,190)
Purchase of subsidiary shares from noncontrolling interest			(2,224)			(10,708)	(12,932)
Pension liability adjustments, net of deferred income taxes of $8,996					(19,903)		(19,903)
Marketable securities unrealized gains, net of deferred income taxes of $2					(4)		(4)
Stock options exercised, 53,350 shares	66	(423)	853				496
Net issuance of stock vesting of restricted stock units, 84,254 shares	172	(1,390)	(594)				(1,812)
Amortization of unearned compensation on restricted stock units, net of forfeitures			1,920				1,920
Balances, June 30, 2009	$ 139,163	$ (735,016)	$ 137,038	$ 2,106,259	$ (204,797)	$ 25,622	$ 1,468,269

	Harsco Corporation Stockholders Equity						
(In thousands, except share and per share amounts)	**Common Stock Issued**	**Common Stock Treasury**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interests**	**Total**
Beginning Balances, January 1, 2010	$ 139,234	$ (735,016)	$ 137,746	$ 2,133,297	$ (201,684)	$ 36,257	$ 1,509,834
Net income				37,697		3,692	41,389
Cash dividends declared:							
Common @ $0.41 per share				(33,095)			(33,095)
Noncontrolling interests						(3,948)	(3,948)
Translation adjustments, net of deferred income taxes of $15,989					(97,941)	(1,151)	(99,092)
Cash flow hedging instrument adjustments, net of deferred income taxes of ($3,208)					9,486		9,486

Contributions of equity from noncontrolling interests						354	354
Pension liability adjustments, net of deferred income taxes of ($11,095)					25,486		25,486
Marketable securities unrealized gains, net of deferred income taxes of $2					(3)		(3)
Stock options exercised, 71,078 shares	88	(836)	1,374				626
Net issuance of stock vesting of restricted stock units, 69,515 shares	136	(1,254)	(188)				(1,306)
Amortization of unearned compensation on restricted stock units, net of forfeitures			1,754				1,754
Balances, June 30, 2010	**$ 139,458**	**$ (737,106)**	**$ 140,686**	**$ 2,137,899**	**$ (264,656)**	**$ 35,204**	**$ 1,451,485**

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)	Three Months Ended June 30 2010		2009	
Net income	$	**31,461**	$	41,508
Other comprehensive income (loss):				
Foreign currency translation adjustments		**(63,571)**		115,081
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of ($3,648) and $7,199 in 2010 and 2009, respectively		**10,647**		(10,397)
Reclassification adjustment for (gains) losses on cash flow hedging instruments included in net income, net of deferred income taxes of ($10) and $266 in 2010 and 2009, respectively		**15**		(494)
Pension liability adjustments, net of deferred income taxes of ($1,231) and $12,970 in 2010 and 2009, respectively		**2,816**		(28,564)
Unrealized gain (loss) on marketable securities, net of deferred income taxes of $6 and ($9) in 2010 and 2009, respectively		**(8)**		16
Total other comprehensive income (loss)		**(50,101)**		75,642
Total comprehensive income (loss)		**(18,640)**		117,150
Less: Comprehensive income attributable to noncontrolling interests		**(1,155)**		(2,323)
Comprehensive income (loss) attributable to Harsco Corporation	$	**(19,795)**	$	114,827

(In thousands)	Six Months Ended June 30 2010		2009	
Net income	$	**41,389**	$	61,263
Other comprehensive income (loss):				
Foreign currency translation adjustments		**(99,092)**		50,010
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of ($3,198) and $8,546 in 2010 and 2009, respectively		**9,471**		(24,108)
Reclassification adjustment for (gains) losses on cash flow hedging instruments included in net income, net of deferred income taxes of ($10) and $1,121 in 2010 and 2009, respectively		**15**		(2,082)
Pension liability adjustments, net of deferred income taxes of ($11,095) and $8,996 in 2010 and 2009, respectively		**25,486**		(19,903)

Unrealized loss on marketable securities, net of deferred income taxes of $1 and $2 in 2010 and 2009, respectively		**(1)**		(4)
Reclassification adjustment for gain on marketable securities, net of deferred income taxes of $1 in 2010		**(2)**		
Total other comprehensive income (loss)		**(64,123)**		3,913
Total comprehensive income (loss)		**(22,734)**		65,176
Less: Comprehensive income attributable to noncontrolling interests		**(2,541)**		(2,474)
Comprehensive income (loss) attributable to Harsco Corporation	**$**	**(25,275)**	$	62,702

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A. Basis of Presentation

The unaudited condensed consolidated financial statements and notes included in this report have been prepared by management of Harsco Corporation (the Company). In the opinion of management, all adjustments (all of which are of a normal recurring nature) that are necessary for a fair presentation are reflected in the condensed consolidated financial statements. The December 31, 2009 Condensed Consolidated Balance Sheets information contained in this Form 10-Q was derived from the 2009 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 condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company s 2009 Annual Report on Form 10-K.

The Company is involved in the normal course of business with variable interest entities (VIE) that are operating entities in the Harsco Infrastructure and Harsco Metals Segments. Generally, VIEs are utilized in countries with foreign ownership requirements or to facilitate the Company s entry into targeted growth markets. The Company is deemed the primary beneficiary in substantially all VIEs in which it is involved and consolidates them in its consolidated financial statements. VIEs in which the Company is not deemed the primary beneficiary are accounted for under the equity method and reported in the Company s Consolidated Balance Sheet as other assets. The Company s maximum exposure to loss with respect to all VIEs is limited to the carrying amounts reported in the Company s Consolidated Balance Sheet and any unfunded commitment. Neither the carrying amounts nor the unfunded commitments related to these VIEs are material.

Segment information for prior periods has been reclassified to conform with the current presentation. The Harsco Rail operating segment, which was previously a component of the All Other Category, is now reported separately.

The Company s management has evaluated all activity of the Company and concluded that subsequent events are properly reflected in the Company s unaudited condensed consolidated financial statements and notes as required by standards for accounting and disclosure of subsequent events.

Operating results and cash flows for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

B. Review of Operations by Segment

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
(In thousands)	**Revenues**	**Revenues**

				Operating Income (Loss)				**Operating Income (Loss)**
Harsco Infrastructure Segment	**$**	**262,653**	**$**	**(13,551)**	$	308,765	$	24,928
Harsco Metals Segment		**316,411**		**24,857**		259,479		4,220
Harsco Rail Segment		**86,327**		**21,614**		94,301		21,996
Segment Totals		**665,391**		**32,920**		662,545		51,144
All Other Category - Harsco Minerals & Harsco Industrial		**121,090**		**29,561**		114,370		20,663
General Corporate		**40**		**(614)**		60		(1,448)
Total	**$**	**786,521**	**$**	**61,867**	$	776,975	$	70,359

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Segment Information

(In thousands)		Six Months Ended June 30, 2010 Revenues		Six Months Ended June 30, 2010 Operating Income (Loss)		Six Months Ended June 30, 2009 Revenues		Six Months Ended June 30, 2009 Operating Income (Loss)
Harsco Infrastructure Segment	**$**	**513,282**	**$**	**(32,823)**	$	592,511	$	43,765
Harsco Metals Segment		**613,890**		**36,231**		497,865		1,405
Harsco Rail Segment		**181,729**		**42,029**		154,141		29,220
Segment Totals		**1,308,901**		**45,437**		1,244,517		74,390
All Other Category - Harsco Minerals & Harsco Industrial		**219,926**		**45,849**		229,228		36,880
General Corporate		**100**		**(1,179)**		120		(3,740)
Total	**$**	**1,528,927**	**$**	**90,107**	$	1,473,865	$	107,530

Reconciliation of Segment Operating Income to Consolidated Income from Continuing Operations

Before Income Taxes and Equity Income

(In thousands)		Three Months Ended June 30 2010		Three Months Ended June 30 2009		Six Months Ended June 30 2010		Six Months Ended June 30 2009
Segment Operating Income	**$**	**32,920**	$	51,144	**$**	**45,437**	$	74,390
All Other Category - Harsco Minerals & Harsco Industrial		**29,561**		20,663		**45,849**		36,880
General Corporate		**(614)**		(1,448)		**(1,179)**		(3,740)
Operating income from continuing operations		**61,867**		70,359		**90,107**		107,530
Interest income		**651**		512		**1,111**		1,057
Interest expense		**(15,411)**		(15,486)		**(31,530)**		(30,799)
Income from continuing operations before income taxes and equity income	**$**	**47,107**	$	55,385	**$**	**59,688**	$	77,788

C. Accounts Receivable and Inventories

At June 30, 2010 and December 31, 2009, Trade accounts receivable of $644.6 million and $598.3 million, respectively, were net of allowances for doubtful accounts of $26.2 million and $24.5 million, respectively. The provision for doubtful accounts was $2.4 million and $6.2 million for the three months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010 and 2009, the provision for doubtful accounts was $4.7 million and $8.2 million, respectively. Other receivables of $25.4 million and $30.9 million at June 30, 2010 and December 31, 2009, respectively, include insurance claim receivables, employee receivables, tax claim receivables and other miscellaneous receivables not included in Trade accounts receivable, net.

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Inventories consist of the following:

	Inventories	
(In thousands)	**June 30 2010**	**December 31 2009**
Finished goods	**$ 125,495**	$ 146,104
Work-in-process	**22,351**	19,381
Raw materials and purchased parts	**77,210**	84,542
Stores and supplies	**37,444**	41,147
Total inventories	**$ 262,500**	$ 291,174

D. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	**June 30 2010**	**December 31 2009**
Land and improvements	**$ 44,733**	$ 46,198
Buildings and improvements	**192,698**	207,280
Machinery and equipment	**2,955,841**	3,146,358
Uncompleted construction	**45,427**	50,252
Gross property, plant and equipment	**3,238,699**	3,450,088
Less accumulated depreciation	**(1,879,999)**	(1,939,287)
Net property, plant and equipment	**$ 1,358,700**	$ 1,510,801

E. Goodwill and Other Intangible Assets

Goodwill by Segment

(In thousands)	**Harsco Infrastructure Segment**	**Harsco Metals Segment**	**Harsco Rail Segment**	**All Other Category Harsco Minerals & Harsco Industrial**	**Consolidated Totals**
Balance as of December 31, 2009	$ 266,119	$ 315,745	$ 8,979	$ 108,198	$ 699,041
Goodwill acquired during year (a)	11,419				11,419
Changes to Goodwill (b)	(2,300)		320		(1,980)

Foreign currency translation	(23,574)	(20,186)		(832)	(44,592)
Balance as of June 30, 2010	**$ 251,664**	**$ 295,559**	**$ 9,299**	**$ 107,366**	**$ 663,888**

(a) Relates to the acquisition of Bell Scaffolding Group, see Note F, Acquisitions.

(b) Relates to opening balance sheet adjustments.

The Company determined that as of June 30, 2010, no interim impairment testing was necessary. However, there can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

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Intangible Assets by Category

(In thousands)	June 30, 2010 Gross Carrying Amount	June 30, 2010 Accumulated Amortization	December 31, 2009 Gross Carrying Amount	December 31, 2009 Accumulated Amortization
Customer relationships	**$ 157,104**	**$ 69,712**	$ 165,092	$ 61,547
Non-compete agreements	**1,323**	**1,253**	1,440	1,346
Patents	**6,821**	**4,627**	7,043	4,597
Other	**75,778**	**32,652**	73,143	28,336
Total	**$ 241,026**	**$ 108,244**	$ 246,718	$ 95,826

Acquired Intangible Assets (a)

(In thousands)	Gross Carrying Amount	Residual Value	Weighted-average Amortization Period
Customer relationships	$ 211	None	7 years
Trade name	4,592	None	5 years
Total	$ 4,803		

(a) Relates to the acquisition of Bell Scaffolding Group, see Note F, Acquisitions.

Amortization expense for intangible assets was $8.2 million and $16.6 million for the second quarter and first six months of 2010, respectively. This compares with $6.3 million and $12.5 million for the second quarter and first six months of 2009, respectively. The following table shows the estimated amortization expense for the next five fiscal years based on current intangible assets. These estimated amortization expense amounts do not reflect the potential effect of future foreign currency exchange rate fluctuations.

(In thousands)	2010	2011	2012	2013	2014
Estimated amortization expense	**$ 32,700**	$ 30,800	$ 17,200	$ 15,400	$ 13,700

F. Acquisitions

In January 2010, the Company acquired Bell Scaffolding Group (Bell), an Australia-based infrastructure solutions provider serving the industrial, infrastructure and commercial construction sectors. Bell s capabilities range from technical design and support through supply and erect contracts. Bell generated revenues of approximately $40 million in 2009 and has been included in the Harsco Infrastructure Segment.

Inclusion of the pro-forma financial information for this transaction is not necessary due to the immaterial size of the acquisition.

Certain of the Company s acquisitions include contingent consideration features for which defined goals must be met by the acquired business in order for payment of the consideration. Each quarter until settlement of the contingency, the Company assesses the likelihood that an acquired business will achieve the goals and the resulting fair value of the contingency. The Company has consummated acquisitions whereby the purchase price included contingent consideration based on the performance of the business during 2010 and 2011. As of June 30, 2010, the Company s assessment of these performance goals resulted in a reduction to the previously recognized contingent consideration liability of $1.4 million and $9.6 million for the three months and six months ended June 30, 2010, respectively. These reductions result from, among other things, difficult end-market conditions for the business, which are expected to continue for the remainder of 2010. In accordance with accounting standards for acquisitions, this adjustment was recognized in operating income in the Condensed Consolidated Income Statement as an increase to the Other (income) expense line item. As the fair value is evaluated on a quarterly basis, any future adjustments (increases or decreases) will also be included in operating income.

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G. Commitments and Contingencies

Environmental

The Company is involved in a number of environmental remediation investigations and cleanups 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, 2010 and December 31, 2009 included accruals in Other current liabilities of $2.9 million and $3.1 million, respectively, for environmental matters. The amounts charged against pre-tax income related to environmental matters totaled $0.4 million for the second quarter and $0.7 million for the first six months of 2010, respectively. This compares with $0.8 million and $1.2 million for the second quarter and first six months of 2009, respectively.

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.

Gas Technologies Divestiture

In October 2009, the Company and Taylor-Wharton International (TWI), the purchaser of the Company s Gas Technologies business, satisfactorily resolved certain claims and counterclaims that had been submitted to arbitration. The claims and counterclaims related both to net working capital adjustments associated with the divestiture and to alleged breach of certain representations and warranties made by the Company. The settlement and related costs and fees were reflected in the $15.1 million after-tax loss from discontinued operations recorded by the Company for the twelve months ended December 31, 2009.

In November 2009, TWI filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. During its bankruptcy, TWI filed a motion to reject certain executory contracts, including the parties Asset and Stock Purchase Agreement dated as of December 7, 2007 (the ASPA). TWI, however, did not seek to reject the settlement agreement finalized in October 2009 between the Company and TWI.

In May and June 2010, the bankruptcy court entered orders confirming TWI s plan of reorganization and approving TWI s rejection of certain executory contracts, including the ASPA. On June 15, 2010, reorganized TWI emerged from bankruptcy.

The Company recorded a pre-tax charge of $5.0 million in the second quarter of 2010 related to potential and contingent claims arising as a result of the rejection of the ASPA. This charge was recorded in Loss from Discontinued Operations. Claims are inherently uncertain and, as a result, potential claims could be resolved at an amount significantly above the amount charged.

Value-Added Tax Dispute

The Company is involved in a value-added and services (ICMS) tax dispute with the State Revenue Authorities from the State of São Paulo, Brazil (the SPRA). In October 2009, the Company received notification of the SPRA s administrative decision regarding the levying of ICMS in the State of São Paulo in relation to services provided to one of the Company s customers in the State between January 2004 and May 2005. The assessment from the SPRA is approximately $12 million, including tax, penalty and interest and could increase to reflect additional interest accrued since December 2007.

The Company believes that it does not have liability for this assessment and will vigorously contest it under various alternatives, including judicial appeal. Any ultimate final determination of this assessment is not likely to have a material adverse effect on the Company s annual results of operations, cash flows or financial condition.

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.

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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 that 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, 2010, there are 24,120 pending asbestos personal injury claims filed against the Company. Of these cases, 23,620 were pending in the New York Supreme Court for New York County in New York State. The other claims, totaling 500, 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, 2010, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in 20,484 cases.

In view of the persistence of asbestos litigation nationwide, 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 plaintiffs can show that they have incurred a physical impairment. As of June 30, 2010, the Company has been listed as a defendant in 765 Active or In Extremis asbestos cases in New York County. The Court s Order has been challenged by plaintiffs.

Except with regard to the legal costs in a few limited, exceptional cases, 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 when it is probable that a liability has been incurred for a particular event and the amount of loss associated with the event can be reasonably estimated. 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 that 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

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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 Consolidated Balance Sheets. See Note 1, Summary of Significant Accounting Policies, of the Company s Form 10-K for the year ended December 31, 2009, for additional information on Accrued Insurance and Loss Reserves.

H. Reconciliation of Basic and Diluted Shares

(In thousands, except per share amounts)	Three Months Ended June 30 2010	2009	Six Months Ended June 30 2010	2009
Income from continuing operations attributable to Harsco Corporation common stockholders	**$ 32,498**	$ 42,077	**$ 40,281**	$ 61,893
Weighted average shares outstanding - basic	**80,559**	80,289	**80,551**	80,269
Dilutive effect of stock-based compensation	**176**	265	**188**	250
Weighted average shares outstanding - diluted	**80,735**	80,554	**80,739**	80,519
Earnings from continuing operations per common share, attributable to Harsco Corporation common stockholders:				
Basic	**$ 0.40**	$ 0.52	**$ 0.50**	$ 0.77
Diluted	**$ 0.40**	$ 0.52	**$ 0.50**	$ 0.77

At June 30, 2010, there were 500 and 18,310 restricted stock units outstanding that were not included in the three month and six months computation of diluted earnings per share, respectively, because the effect was antidilutive. At June 30, 2009, there were 1,999 and 43,709 restricted stock units outstanding that were not included in the three months and six months computation of diluted earnings per share, respectively, because the effect was antidilutive.

I. Employee Benefit Plans

Defined Benefit Net Periodic Pension Cost (In thousands)	Three Months Ended June 30 U. S. Plans 2010	2009	International Plans 2010	2009
Defined benefit plans:				
Service cost	**$ 520**	$ 417	**$ 970**	$ 1,005
Interest cost	**3,512**	3,282	**11,383**	10,967
Expected return on plan assets	**(4,158)**	(3,397)	**(11,045)**	(10,499)
Recognized prior service costs	**85**	81	**87**	89
Recognized (gains) losses	**652**	(869)	**2,885**	585
Amortization of transition liability			**13**	7

Settlement loss			**17**	
Defined benefit plans net periodic pension cost	**$ 611**	$ (486)	**$ 4,310**	$ 2,154

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Defined Benefit Net Periodic Pension Cost (In thousands)	**Six Months Ended June 30** U. S. Plans 2010	2009	International Plans 2010	2009
Defined benefit plans:				
Service cost	**$ 1,040**	$ 864	**$ 1,991**	$ 1,936
Interest cost	**7,022**	6,808	**23,204**	20,949
Expected return on plan assets	**(8,317)**	(7,046)	**(22,491)**	(20,273)
Recognized prior service costs	**170**	169	**179**	172
Recognized losses	**1,304**	1,655	**5,873**	4,279
Amortization of transition liability			**26**	14
Settlement loss			**33**	
Defined benefit plans net periodic pension cost	**$ 1,219**	$ 2,450	**$ 8,815**	$ 7,077

In the quarter ended June 30, 2010, the Company contributed $0.5 million and $3.8 million for the U.S. and international defined benefit pension plans, respectively. In the six months ended June 30, 2010, the Company contributed $0.9 million and $9.7 million for the U.S. and international defined benefit pension plans, respectively. The Company currently anticipates contributing an additional $1.3 million and $18.2 million for the U.S. and international plans, respectively, during the remainder of 2010.

In the quarter ended June 30, 2010, the Company s contributions to multi-employer and defined contribution pension plans were $6.4 million and $2.9 million, respectively. In the six months ended June 30, 2010, the Company contributed $11.1 million and $5.7 million to multiemployer and defined contribution plans, respectively.

J. Recently Adopted and Recently Issued Accounting Standards

The following accounting standards were adopted in 2010:

On January 1, 2010, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) on accounting for variable interest entities. These changes require an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the solely quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity s economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a variable interest entity. Other than additional disclosure requirements concerning variable interest entities, the adoption of these changes had no impact on the Company s consolidated financial statements.

Effective January 1, 2010, the Company adopted changes to the FASB s previously-issued guidance on accounting for noncontrolling interests in consolidated financial statements. These changes were issued by the FASB on January 6, 2010 and clarify the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a consolidated subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. The adoption of these changes had no impact on the Company s consolidated financial statements.

Effective January 1, 2010, the Company adopted changes issued by the FASB on January 21, 2010 related to disclosure requirements for fair value measurements. The changes require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. The changes also clarify existing disclosure requirements related to how assets and liabilities should be grouped by class and valuation techniques used for recurring and nonrecurring fair value measurements. The adoption of these changes had no impact on the Company s consolidated financial statements.

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Effective January 1, 2010, the Company adopted changes issued by the FASB on February 24, 2010 to the accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued, generally referred to as subsequent events. These changes clarified that an entity that is required to file or furnish its financial statements with the Securities and Exchange Commission (SEC) is not required to disclose the date through which subsequent events have been evaluated. Other than the elimination of disclosing this date, the adoption of these changes had no impact on the Company s consolidated financial statements.

The following accounting standards have been issued and become effective for the Company at various future dates:

In October 2009, the FASB issued changes related to the accounting for revenue recognition when multiple-deliverable revenue arrangements are present. The changes eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. This method allows a vendor to use its best estimate of selling price if neither vendor-specific objective evidence nor third-party evidence of selling price exists when evaluating multiple deliverable arrangements. These changes must be adopted no later than January 1, 2011 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. Management is currently evaluating the requirements of these changes and has not yet determined the impact on the Company s consolidated financial statements.

In January 2010, the FASB issued changes to disclosure requirements for fair value measurements. The changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). These changes become effective for the Company beginning January 1, 2011. Other than the additional disclosure requirements, management has determined these changes will not have an impact on the Company s consolidated financial statements.

K. Derivative Instruments, Hedging Activities and Fair Value

The Company uses derivative instruments, including swaps and forward contracts, to manage certain foreign currency, commodity price and interest rate exposures. Derivative instruments are viewed as risk management tools by the Company and are not used for trading or speculative purposes.

All derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives used to hedge foreign-currency-denominated balance sheet items are reported directly in earnings along with offsetting transaction gains and losses on the items being hedged. Derivatives used to hedge forecasted cash flows associated with foreign currency commitments or forecasted commodity purchases may be accounted for as cash flow hedges as deemed appropriate and if the criteria for hedge accounting are met. Gains and losses on derivatives designated as cash flow hedges are deferred as a separate component of equity and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. Generally, as of June 30, 2010, these deferred gains and losses will be reclassified to earnings over 10 to 15 years from the balance sheet date. The ineffective portion of all hedges, if any, is recognized currently in earnings.

The fair values of outstanding derivative contracts recorded as assets and liabilities in the accompanying Condensed Consolidated Balance Sheets were as follows:

(In thousands)	Fair Values of Derivative Contracts Other current assets		Other assets		Other current liabilities	
At June 30, 2010:						
Derivatives designated as hedging instruments:						
Commodity contracts	**$**		**$**		**$**	**25**
Cross-currency interest rate swap				**54,031**		
Total derivatives designated as hedging instruments	**$**		**$**	**54,031**	**$**	**25**
Derivatives not designated as hedging instruments:						
Foreign currency forward exchange contracts	**$**	**1,385**	**$**		**$**	**716**
At December 31, 2009:						
Derivatives designated as hedging instruments:						
Foreign currency forward exchange contracts	$		$		$	14
Cross-currency interest rate swap				7,357		
Total derivatives designated as hedging instruments	$		$	7,357	$	14
Derivatives not designated as hedging instruments:						
Foreign currency forward exchange contracts	$	2,187	$		$	590

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The effect of derivative instruments on the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2010 and 2009 was as follows:

Derivatives Designated as Hedging Instruments

(In thousands)	Amount of Gain (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivative - Effective Portion	Location of Gain Reclassified from Accumulated OCI into Income - Effective Portion	Amount of Gain Reclassified from Accumulated OCI into Income - Effective Portion	Location of Gain (Loss) Recognized in Income on Derivative - Ineffective Portion and Amount Excluded from Effectiveness Testing	Amount of Gain (Loss) Recognized in Income on Derivative - Ineffective Portion and Amount Excluded from Effectiveness Testing
For the three months ended June 30, 2010:					
Foreign currency forward exchange contracts	**$ 1**		**$**		**$**
Commodity contracts	**(33)**	Cost of services and products sold	**(24)**	Cost of services and products sold	**(20)**
Cross-currency interest rate swap	**14,327**			Cost of services and products sold	**19,607(a)**
	$ 14,295		**$ (24)**		**$ 19,587**
For the three months ended June 30, 2009:					
Foreign currency forward exchange contracts	$ 27		$ 3		$
Commodity contracts	(3,309)	Service Revenues	757	Service Revenues	(485)
Cross-currency interest rate swap	(10,870)			Cost of services and products sold	(14,215) (a)