

HARSCO CORP
Form 10-Q
November 04, 2010
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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 September 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

(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 NO

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 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 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

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 October 31, 2010 |
|--|---------------------------------|
| Common stock, par value \$1.25 per share | 80,506,644 |

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HARSCO CORPORATION

FORM 10-Q

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Table of Contents**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 September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|------------------|-----------------------------------|------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues from continuing operations: | | | | |
| Service revenues | \$ 627,901 | \$ 612,432 | \$ 1,865,333 | \$ 1,791,081 |
| Product revenues | 124,500 | 131,789 | 415,994 | 427,005 |
| Total revenues | 752,401 | 744,221 | 2,281,327 | 2,218,086 |
| Costs and expenses from continuing operations: | | | | |
| Cost of services sold | 493,181 | 472,943 | 1,481,099 | 1,385,054 |
| Cost of products sold | 81,569 | 81,652 | 263,597 | 279,061 |
| Selling, general and administrative expenses | 131,405 | 125,443 | 401,496 | 381,354 |
| Research and development expenses | 1,293 | 861 | 2,979 | 2,236 |
| Other (income) expense | 883 | 6,898 | (2,020) | 6,427 |
| Total costs and expenses | 708,331 | 687,797 | 2,147,151 | 2,054,132 |
| Operating income from continuing operations | 44,070 | 56,424 | 134,176 | 163,954 |
| Interest income | 737 | 888 | 1,849 | 1,944 |
| Interest expense | (15,709) | (15,822) | (47,239) | (46,621) |
| Income from continuing operations before income taxes and equity income | 29,098 | 41,490 | 88,786 | 119,277 |
| Income tax expense | (7,391) | (6,525) | (23,295) | (20,508) |
| Equity in income of unconsolidated entities, net | 120 | 128 | 309 | 280 |
| Income from continuing operations | 21,827 | 35,093 | 65,800 | 99,049 |
| Discontinued operations: | | | | |
| Loss from discontinued business | (1,406) | (17,183) | (6,195) | (21,094) |
| Income tax benefit | 511 | 5,391 | 2,716 | 6,609 |
| Loss from discontinued operations | (895) | (11,792) | (3,479) | (14,485) |
| Net Income | 20,932 | 23,301 | 62,321 | 84,564 |
| Less: Net income attributable to noncontrolling interests | (753) | (3,119) | (4,445) | (5,182) |
| Net Income attributable to Harsco Corporation | \$ 20,179 | \$ 20,182 | \$ 57,876 | \$ 79,382 |
| Amounts attributable to Harsco Corporation common stockholders: | | | | |
| Income from continuing operations, net of tax | \$ 21,074 | \$ 31,974 | \$ 61,355 | \$ 93,867 |
| Loss from discontinued operations, net of tax | (895) | (11,792) | (3,479) | (14,485) |
| Net income attributable to Harsco Corporation common stockholders | \$ 20,179 | \$ 20,182 | \$ 57,876 | \$ 79,382 |

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| | | | | |
|---|-----------------|----------|-----------------|----------|
| Weighted average shares of common stock outstanding | 80,574 | 80,315 | 80,559 | 80,285 |
| Basic earnings per common share attributable to Harsco Corporation common stockholders: | | | | |
| Continuing operations | \$ 0.26 | \$ 0.40 | \$ 0.76 | \$ 1.17 |
| Discontinued operations | (0.01) | (0.15) | (0.04) | (0.18) |
| Basic earnings per share attributable to Harsco Corporation common stockholders | \$ 0.25 | \$ 0.25 | \$ 0.72 | \$ 0.99 |
| Diluted weighted average shares of common stock outstanding | | | | |
| | 80,762 | 80,631 | 80,747 | 80,557 |
| Diluted earnings per common share attributable to Harsco Corporation common stockholders: | | | | |
| Continuing operations | \$ 0.26 | \$ 0.40 | \$ 0.76 | \$ 1.17 |
| Discontinued operations | (0.01) | (0.15) | (0.04) | (0.18) |
| Diluted earnings per share attributable to Harsco Corporation common stockholders | \$ 0.25 | \$ 0.25 | \$ 0.72 | \$ 0.99 |
| Cash dividends declared per common share | \$ 0.205 | \$ 0.200 | \$ 0.615 | \$ 0.600 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**HARSCO CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

| (In thousands) | September 30 2010 | December 31 2009 |
|--|----------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 330,337 | \$ 94,184 |
| Trade accounts receivable, net | 657,880 | 598,318 |
| Other receivables | 28,848 | 30,865 |
| Inventories | 278,922 | 291,174 |
| Other current assets | 163,818 | 154,797 |
| Total current assets | 1,459,805 | 1,169,338 |
| Property, plant and equipment, net | 1,428,705 | 1,510,801 |
| Goodwill | 698,261 | 699,041 |
| Intangible assets, net | 129,157 | 150,746 |
| Other assets | 128,819 | 109,314 |
| Total assets | \$ 3,844,747 | \$ 3,639,240 |
| LIABILITIES | | |
| Current liabilities: | | |
| Short-term borrowings | \$ 4,960 | \$ 57,380 |
| Current maturities of long-term debt | 319,803 | 25,813 |
| Accounts payable | 237,275 | 215,504 |
| Accrued compensation | 84,047 | 67,652 |
| Income taxes payable | 26,655 | 5,931 |
| Dividends payable | 16,503 | 16,473 |
| Insurance liabilities | 24,764 | 25,533 |
| Advances on contracts | 101,625 | 149,413 |
| Other current liabilities | 209,414 | 187,403 |
| Total current liabilities | 1,025,046 | 751,102 |
| Long-term debt | 850,586 | 901,734 |
| Deferred income taxes | 76,593 | 90,993 |
| Insurance liabilities | 64,417 | 61,660 |
| Retirement plan liabilities | 231,553 | 250,075 |
| Other liabilities | 58,755 | 73,842 |
| Total liabilities | 2,306,950 | 2,129,406 |
| COMMITMENTS AND CONTINGENCIES | | |
| EQUITY | | |
| Harsco Corporation stockholders' equity: | | |
| Common stock | 139,497 | 139,234 |
| Additional paid-in capital | 140,737 | 137,746 |
| Accumulated other comprehensive loss | (182,571) | (201,684) |
| Retained earnings | 2,141,560 | 2,133,297 |
| Treasury stock | (737,106) | (735,016) |
| Total Harsco Corporation stockholders' equity | 1,502,117 | 1,473,577 |
| Noncontrolling interests | 35,680 | 36,257 |
| Total equity | 1,537,797 | 1,509,834 |
| Total liabilities and equity | \$ 3,844,747 | \$ 3,639,240 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**HARSCO CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

| (In thousands) | Nine Months Ended September 30 | |
|--|-----------------------------------|------------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 62,321 | \$ 84,564 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 209,428 | 208,014 |
| Amortization | 27,033 | 20,627 |
| Equity in income of unconsolidated entities, net | (309) | (280) |
| Dividends or distributions from unconsolidated entities | 176 | 200 |
| Other, net | (17,271) | 2,688 |
| Changes in assets and liabilities, net of acquisitions and dispositions of businesses: | | |
| Accounts receivable | (57,299) | 55,251 |
| Inventories | 8,606 | 23,230 |
| Accounts payable | 14,524 | (55,162) |
| Accrued interest payable | 21,252 | 20,935 |
| Accrued compensation | 16,429 | (19,439) |
| Other assets and liabilities | (48,910) | (63,934) |
| Net cash provided by operating activities | 235,980 | 276,694 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (129,942) | (123,072) |
| Purchases of businesses, net of cash acquired | (27,643) | (12,732) |
| Proceeds from sales of assets | 18,421 | 11,521 |
| Other investing activities | (3,093) | (3,016) |
| Net cash used by investing activities | (142,257) | (127,299) |
| Cash flows from financing activities: | | |
| Short-term borrowings, net | (50,919) | (84,303) |
| Current maturities and long-term debt: | | |
| Additions | 499,267 | 292,996 |
| Reductions | (251,646) | (296,854) |
| Cash dividends paid on common stock | (49,460) | (47,750) |
| Dividends paid to noncontrolling interests | (5,020) | (2,466) |
| Purchase of noncontrolling interest | (1,159) | (12,953) |
| Contributions of equity from noncontrolling interests | 442 | 5,332 |
| Common stock issued-options | 820 | 444 |
| Other financing activities | (369) | |
| Net cash provided (used) by financing activities | 141,956 | (145,554) |
| Effect of exchange rate changes on cash | 474 | 2,530 |
| Net increase in cash and cash equivalents | 236,153 | 6,371 |
| Cash and cash equivalents at beginning of period | 94,184 | 91,336 |

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| | | | | |
|---|-----------|----------------|-----------|---------------|
| Cash and cash equivalents at end of period | \$ | 330,337 | \$ | 97,707 |
|---|-----------|----------------|-----------|---------------|

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**HARSCO CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)**

| (In thousands, except share and per share amounts) | Harsco Corporation Stockholders Equity | | | | | | Total |
|---|--|--------------|----------------------------|-------------------|---|--------------------------|--------------|
| | Common Stock Issued | Treasury | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | |
| Beginning Balances, January 1, 2009 | \$ 138,925 | \$ (733,203) | \$ 137,083 | \$ 2,079,170 | \$ (208,299) | \$ 36,296 | \$ 1,449,972 |
| Net income | | | | 79,382 | | 5,182 | 84,564 |
| Cash dividends declared: | | | | | | | |
| Common @ \$0.600 per share | | | | (48,178) | | | (48,178) |
| Noncontrolling interests | | | | | | (2,466) | (2,466) |
| Translation adjustments, net of deferred income taxes of (\$15,654) | | | | | 94,278 | 297 | 94,575 |
| Cash flow hedging instrument adjustments, net of deferred income taxes of \$10,121 | | | | | (27,486) | | (27,486) |
| Purchase of subsidiary shares from noncontrolling interest | | | (3,905) | | | (9,141) | (13,046) |
| Contributions of equity from noncontrolling interest | | | | | | 5,332 | 5,332 |
| Pension liability adjustments, net of deferred income taxes of \$4,775 | | | | | (10,569) | | (10,569) |
| Marketable securities unrealized gains, net of deferred income taxes of (\$5) | | | | | | 9 | 9 |
| Stock options exercised, 54,000 shares | 67 | (423) | 863 | | | | 507 |
| Net issuance of stock vesting of restricted stock units, 101,918 shares | 194 | (1,390) | (616) | | | | (1,812) |
| Amortization of unearned compensation on restricted stock units, net of forfeitures | | | 2,735 | | | | 2,735 |
| Balances, September 30, 2009 | \$ 139,186 | \$ (735,016) | \$ 136,160 | \$ 2,110,374 | \$ (152,067) | \$ 35,500 | \$ 1,534,137 |

| (In thousands, except share and per share amounts) | Harsco Corporation Stockholders Equity | | | | | | Total |
|---|--|--------------|----------------------------|-------------------|---|--------------------------|--------------|
| | Common Stock Issued | Treasury | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | |
| Beginning Balances, January 1, 2010 | \$ 139,234 | \$ (735,016) | \$ 137,746 | \$ 2,133,297 | \$ (201,684) | \$ 36,257 | \$ 1,509,834 |
| Net income | | | | 57,876 | | 4,445 | 62,321 |
| Cash dividends declared: | | | | | | | |
| Common @ \$0.615 per share | | | | (49,613) | | | (49,613) |
| Noncontrolling interests | | | | | | (5,020) | (5,020) |
| Translation adjustments, net of deferred income taxes of \$5,214 | | | | | (8,205) | (288) | (8,493) |
| Cash flow hedging instrument adjustments, net of deferred income taxes of \$(3,590) | | | | | 10,576 | | 10,576 |
| Contributions of equity from noncontrolling interests | | | | | | 442 | 442 |
| Purchase of subsidiary shares from noncontrolling interest | | | (1,003) | | | (156) | (1,159) |
| Pension liability adjustments, net of deferred income taxes of \$(6,965) | | | | | 16,741 | | 16,741 |

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| | | | | | | | | | |
|---|-------------------|---------------------|-------------------|---------------------|---------------------|------------------|---------------------|--|---------|
| Marketable securities unrealized gains, net of deferred income taxes of (\$1) | | | | | | 1 | | | 1 |
| Stock options exercised, 101,698 shares | 127 | (836) | 1,732 | | | | | | 1,023 |
| 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 | | | | 2,450 | | | | | 2,450 |
| Balances, September 30, 2010 | \$ 139,497 | \$ (737,106) | \$ 140,737 | \$ 2,141,560 | \$ (182,571) | \$ 35,680 | \$ 1,537,797 | | |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**HARSCO CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

| (In thousands) | Three Months Ended September 30 | |
|--|------------------------------------|-----------|
| | 2010 | 2009 |
| Net income | \$ 20,932 | \$ 23,301 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 90,599 | 44,565 |
| Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of (\$382) and \$779 in 2010 and 2009, respectively | 1,089 | (1,902) |
| Reclassification adjustment for losses on cash flow hedging instruments included in net income, net of deferred income taxes (\$325) in 2009 | 1 | 606 |
| Pension liability adjustments, net of deferred income taxes of \$4,130 and (\$4,221) in 2010 and 2009, respectively | (8,745) | 9,334 |
| Unrealized gain on marketable securities, net of deferred income taxes of (\$3) and (\$7) in 2010 and 2009, respectively | 4 | 13 |
| Total other comprehensive income | 82,948 | 52,616 |
| Total comprehensive income | 103,880 | 75,917 |
| Less: Comprehensive income attributable to noncontrolling interests | (1,616) | (3,005) |
| Comprehensive income attributable to Harsco Corporation | \$ 102,264 | \$ 72,912 |

| (In thousands) | Nine Months Ended September 30 | |
|---|-----------------------------------|-----------|
| | 2010 | 2009 |
| Net income | \$ 62,321 | \$ 84,564 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | (8,493) | 94,575 |
| Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of (\$3,580) and \$9,325 in 2010 and 2009, respectively | 10,560 | (26,010) |
| Reclassification adjustment for (gains) losses on cash flow hedging instruments included in net income, net of deferred income taxes of (\$10) and \$796 in 2010 and 2009, respectively | 16 | (1,476) |
| Pension liability adjustments, net of deferred income taxes of (\$6,965) and \$4,775 in 2010 and 2009, respectively | 16,741 | (10,569) |
| | 3 | 9 |

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Unrealized gain on marketable securities, net of deferred income taxes of (\$2) and (\$5) in 2010 and 2009, respectively

| | | | |
|--|----|----------------|------------|
| Reclassification adjustment for gain on marketable securities, net of deferred income taxes of \$1 in 2010 | | (2) | |
| Total other comprehensive income | | 18,825 | 56,529 |
| Total comprehensive income | | 81,146 | 141,093 |
| Less: Comprehensive income attributable to noncontrolling interests | | (4,157) | (5,479) |
| Comprehensive income attributable to Harsco Corporation | \$ | 76,989 | \$ 135,614 |

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 and notes. The December 31, 2009 Condensed Consolidated Balance Sheet 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 considers itself to be the primary beneficiary in substantially all VIEs in which it is involved and accordingly, consolidates them in its financial statements. VIEs in which the Company is not considered to be 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 considered material.

During the third quarter of 2009, the Company recorded non-cash, out-of-period adjustments that had the net effect of reducing after-tax income by \$9 million or \$0.11 per diluted share. The adjustments corrected errors generated principally by the improper recognition of certain revenues and the delayed recognition of certain expenses by one subsidiary, in one country, during the prior three years. Based upon the Company's investigation, which was completed by December 31, 2009, these errors primarily related to the failure to receive advance customer agreement and to invoice on a timely basis for additional work performed for two customers. The Company assessed the individual and aggregate impact of these adjustments on 2009 and all prior periods and determined that the cumulative effect of the adjustments was not material to the full year 2009 results and did not result in a material misstatement to any previously issued annual or quarterly financial statements. Consequently, the Company recorded the \$9 million net adjustment in the third quarter of 2009 and did not revise any previously issued annual financial statements or interim financial data.

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.

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

Table of Contents**B. Review of Operations by Segment**

| (In thousands) | Three Months Ended September 30, 2010 | | Three Months Ended September 30, 2009 | |
|---|--|-------------------------------|--|-------------------------------|
| | Revenues | Operating Income (Loss) | Revenues | Operating Income (Loss) |
| Harsco Infrastructure Segment | \$ 253,569 | \$ (13,643) | \$ 279,450 | \$ 22,503 |
| Harsco Metals Segment | 313,214 | 19,443 | 275,093 | (4,420) |
| Harsco Rail Segment | 70,675 | 14,401 | 77,237 | 14,785 |
| Segment Totals | 637,458 | 20,201 | 631,780 | 32,868 |
| All Other Category - Harsco Minerals & Harsco Industrial | 114,863 | 24,928 | 112,381 | 24,839 |
| General Corporate | 80 | (1,059) | 60 | (1,283) |
| Total | \$ 752,401 | \$ 44,070 | \$ 744,221 | \$ 56,424 |

| (In thousands) | Nine Months Ended September 30, 2010 | | Nine Months Ended September 30, 2009 | |
|---|---|-------------------------------|---|-------------------------------|
| | Revenues | Operating Income (Loss) | Revenues | Operating Income (Loss) |
| Harsco Infrastructure Segment | \$ 766,851 | \$ (46,467) | \$ 871,962 | \$ 66,267 |
| Harsco Metals Segment | 927,104 | 55,674 | 772,958 | (3,014) |
| Harsco Rail Segment | 252,404 | 56,429 | 231,378 | 44,005 |
| Segment Totals | 1,946,359 | 65,636 | 1,876,298 | 107,258 |
| All Other Category - Harsco Minerals & Harsco Industrial | 334,788 | 70,777 | 341,608 | 61,720 |
| General Corporate | 180 | (2,237) | 180 | (5,024) |
| Total | \$ 2,281,327 | \$ 134,176 | \$ 2,218,086 | \$ 163,954 |

Reconciliation of Segment Operating Income to Consolidated Income from Continuing Operations**Before Income Taxes and Equity Income**

| (In thousands) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|----------------|------------------------------------|------|-----------------------------------|------|
| | 2010 | 2009 | 2010 | 2009 |

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| | | | | | | | | |
|---|----|-----------------|----|----------|----|-----------------|----|----------|
| Segment Operating Income | \$ | 20,201 | \$ | 32,868 | \$ | 65,636 | \$ | 107,258 |
| All Other Category - Harsco Minerals & Harsco Industrial | | 24,928 | | 24,839 | | 70,777 | | 61,720 |
| General Corporate | | (1,059) | | (1,283) | | (2,237) | | (5,024) |
| Operating income from continuing operations | | 44,070 | | 56,424 | | 134,176 | | 163,954 |
| Interest income | | 737 | | 888 | | 1,849 | | 1,944 |
| Interest expense | | (15,709) | | (15,822) | | (47,239) | | (46,621) |
| Income from continuing operations before income taxes and equity income | \$ | 29,098 | \$ | 41,490 | \$ | 88,786 | \$ | 119,277 |

Table of Contents**C. Accounts Receivable and Inventories**

At September 30, 2010 and December 31, 2009, Trade accounts receivable of \$657.9 million and \$598.3 million, respectively, were net of allowances for doubtful accounts of \$21.2 million and \$24.5 million, respectively. The provision for doubtful accounts was \$2.3 million and \$2.6 million for the three months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010 and 2009, the provision for doubtful accounts was \$7.0 million and \$10.8 million, respectively. Other receivables of \$28.8 million and \$30.9 million at September 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.

| (In thousands) | Inventories | |
|-----------------------------------|----------------------|---------------------|
| | September 30 2010 | December 31 2009 |
| Finished goods | \$ 129,449 | \$ 146,104 |
| Work-in-process | 26,484 | 19,381 |
| Raw materials and purchased parts | 82,421 | 84,542 |
| Stores and supplies | 40,568 | 41,147 |
| Total inventories | \$ 278,922 | \$ 291,174 |

D. Property, Plant and Equipment

| (In thousands) | September 30 2010 | December 31 2009 |
|-------------------------------------|----------------------|---------------------|
| Land and improvements | \$ 47,269 | \$ 46,198 |
| Buildings and improvements | 199,587 | 207,280 |
| Machinery and equipment | 3,138,000 | 3,146,358 |
| Uncompleted construction | 60,855 | 50,252 |
| Gross property, plant and equipment | 3,445,711 | 3,450,088 |
| Less accumulated depreciation | (2,017,006) | (1,939,287) |
| Property, plant and equipment, net | \$ 1,428,705 | \$ 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 |

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| | | | | | |
|---|-------------------|-------------------|-----------------|-------------------|-------------------|
| Goodwill acquired during year (a) | 11,419 | | | | 11,419 |
| Changes to Goodwill (b) | (1,587) | | 320 | | (1,267) |
| Foreign currency translation | (6,679) | (4,533) | | 280 | (10,932) |
| Balance as of September 30, 2010 | \$ 269,272 | \$ 311,212 | \$ 9,299 | \$ 108,478 | \$ 698,261 |

(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 September 30, 2010, no interim impairment testing was necessary. The Company's annual goodwill impairment testing will be completed during the fourth quarter of 2010. There can be no assurance that

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goodwill impairment testing will not result in a charge to earnings. Should the Company experience a further degradation in the overall markets served by the Harsco Infrastructure Segment, impairment losses for assets associated with this Segment may be required. Any necessary impairment could result in the write down of the carrying value of goodwill to its implied fair value.

Intangible Assets by Category

| (In thousands) | September 30, 2010 | | December 31, 2009 | |
|------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships | \$ 162,485 | \$ 77,629 | \$ 165,092 | \$ 61,547 |
| Non-compete agreements | 1,378 | 1,304 | 1,440 | 1,346 |
| Patents | 6,989 | 4,811 | 7,043 | 4,597 |
| Other | 78,398 | 36,349 | 73,143 | 28,336 |
| Total | \$ 249,250 | \$ 120,093 | \$ 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 \$8.3 million and \$24.8 million for the third quarter and first nine months of 2010, respectively. This compares with \$6.5 million and \$19.0 million for the third quarter and first nine 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 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 September 30, 2010, the Company's assessment of these performance goals resulted in a reduction to the previously recognized contingent consideration liability of \$1.0 million and \$10.6 million for the three months and nine months ended September 30, 2010, respectively. These reductions result from, among other things, difficult end-market conditions for the business, which are

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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 a component of 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.

Net Income Attributable to the Company and Transfers to Noncontrolling Interest

The purpose of the following schedule is to disclose the effects of changes in the Company's ownership interest in its subsidiaries on the Company's equity. In September 2010, the Company acquired an increased ownership share of a consolidated subsidiary located in the United Arab Emirates from a noncontrolling interest partner. The acquisition was accounted for as an equity transaction since the Company retained its controlling interest in the subsidiary.

| (In thousands) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|------------------------------------|-----------|-----------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income attributable to the Company | \$ 20,179 | \$ 20,182 | \$ 57,876 | \$ 79,382 |
| Decrease in the Company's paid-in capital for purchase of partnership interests | (1,003) | (1,681) | (1,003) | (3,905) |
| Change from net income attributable to the Company and transfers to noncontrolling interest | \$ 19,176 | \$ 18,501 | \$ 56,873 | \$ 75,477 |

G. Debt and Credit Agreements

In September 2010, the Company completed a \$250 million bond offering that bears interest at 2.7% and matures in October 2015. The net proceeds of this issuance were used to repay, in part, 200 million British pound sterling-denominated notes (approximately \$316 million) that matured October 27, 2010. Additional commercial paper borrowings were made to repay the remainder of the British pound sterling-denominated notes in excess of the proceeds from the 2010 bond issuance.

H. 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

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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 September 30, 2010 and December 31, 2009 included accruals in Other current liabilities of \$3.6 million and \$3.1 million, respectively, for environmental matters. The amount charged against pre-tax income related to environmental matters totaled \$0.9 million for the third quarter of 2010. There was less than \$0.1 million charged against pre-tax income related to environmental matters for the third quarter of 2009. Amounts charged against pre-tax income for the first nine months of 2010 and 2009 totaled \$1.6 million and \$1.2 million, 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

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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. As part of its filing, 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 recorded.

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.

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.

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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 September 30, 2010, there are 20,085 pending asbestos personal injury claims filed against the Company. Of these cases, 19,593 are pending in the New York Supreme Court for New York County in New York State. The other claims, totaling 492, 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 September 30, 2010, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in 24,573 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

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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 September 30, 2010, the Company has been listed as a defendant in 750 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 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.

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I. Reconciliation of Basic and Diluted Shares

| (In thousands, except per share amounts) | Three Months Ended September 30 | | Nine Months Ended September 30 |
|--|------------------------------------|------|-----------------------------------|
| | 2010 | 2009 | |