HARSCO CORP
Form 10-Q
November 05, 2009

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, 2009

OR

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

Commission File Number 1-3970

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

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

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

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

Indicate by check mark whether the registrant 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 o 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 issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 30, 2009
Common stock, par value $1.25 per share	80,316,209

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands, except per share amounts)	2009	2008 (a)	2009	2008 (a)
Revenues from continuing operations:				
Service revenues	$ 612,432	$ 876,633	$ 1,791,081	$ 2,673,751
Product revenues	131,789	168,264	427,005	458,524
Total revenues	744,221	1,044,897	2,218,086	3,132,275
Costs and expenses from continuing operations:				
Cost of services sold	472,943	644,401	1,385,054	1,968,990
Cost of products sold	81,652	117,940	279,061	316,102
Selling, general and administrative expenses	125,443	153,518	381,354	470,482
Research and development expenses	861	1,177	2,236	3,738
Other (income) expense	6,898	(6,012)	6,427	(6,129)
Total costs and expenses	687,797	911,024	2,054,132	2,753,183
Operating income from continuing operations	56,424	133,873	163,954	379,092
Equity in income of unconsolidated entities, net	128	282	280	932
Interest income	888	1,066	1,944	2,866
Interest expense	(15,822)	(19,650)	(46,621)	(55,844)
Income from continuing operations before income taxes	41,618	115,571	119,557	327,046
Income tax expense	(6,525)	(30,048)	(20,508)	(89,236)
Income from continuing operations	35,093	85,523	99,049	237,810
Discontinued operations:				
Loss from discontinued business	(17,183)	(852)	(21,094)	(1,438)
Income tax benefit (expense)	5,391	(2,834)	6,609	(2,588)
Loss from discontinued operations	(11,792)	(3,686)	(14,485)	(4,026)
Net Income	23,301	81,837	84,564	233,784
Less: Net income attributable to noncontrolling interests	(3,119)	(1,553)	(5,182)	(6,578)
Net Income attributable to Harsco Corporation	$ 20,182	$ 80,284	$ 79,382	$ 227,206

Amounts attributable to Harsco Corporation common stockholders:											
Income from continuing operations, net of tax	$	31,974		$	83,970		$	93,867		$	231,232	
Loss from discontinued operations, net of tax		(11,792	)		(3,686	)		(14,485	)		(4,026	)
Net income attributable to Harsco Corporation common stockholders	$	20,182		$	80,284		$	79,382		$	227,206	
Weighted average shares of common stock outstanding		80,315			84,089			80,285			84,244	
Basic earnings per common share attributable to Harsco Corporation common stockholders:												
Continuing operations	$	0.40		$	1.00		$	1.17		$	2.74	
Discontinued operations		(0.15	)		(0.04	)		(0.18	)		(0.05	)
Basic earnings per share attributable to Harsco Corporation common stockholders	$	0.25		$	0.95	(b)	$	0.99		$	2.70	(b)
Diluted weighted average shares of common stock outstanding		80,631			84,537			80,557			84,712	
Diluted earnings per common share attributable to Harsco Corporation common stockholders:												
Continuing operations	$	0.40		$	0.99		$	1.17		$	2.73	
Discontinued operations		(0.15	)		(0.04	)		(0.18	)		(0.05	)
Diluted earnings per share attributable to Harsco Corporation common stockholders	$	0.25		$	0.95		$	0.99		$	2.68	
Cash dividends declared per common share	$	0.200		$	0.195		$	0.600		$	0.585	

(a) On January 1, 2009, the Company adopted changes issued by the Financial Accounting Standards Board related to consolidation accounting and reporting. These changes, among others, require that minority interests be renamed noncontrolling interests and that a company present a consolidated net income measure that includes the amount attributable to such noncontrolling interests for all periods presented. Results have been reclassified accordingly.

(b) Does not total due to rounding.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	September 30 2009	December 31 2008 (a)
ASSETS		
Current assets:		
Cash and cash equivalents	$97,707	$91,336
Trade accounts receivable, net	640,870	648,880
Other receivables	27,497	46,032
Inventories	300,874	309,530
Other current assets	106,783	104,430
Assets held-for-sale	657	5,280
Total current assets	1,174,388	1,205,488
Property, plant and equipment, net	1,493,119	1,482,833
Goodwill	668,017	631,490
Intangible assets, net	133,792	141,493
Other assets	68,011	101,666
Total assets	$3,537,327	$3,562,970
LIABILITIES		
Current liabilities:		
Short-term borrowings	$38,586	$117,854
Current maturities of long-term debt	4,050	3,212
Accounts payable	218,680	262,783
Accrued compensation	70,333	85,237
Income taxes payable	8,563	13,395
Dividends payable	16,063	15,637
Insurance liabilities	24,206	36,553
Advances on contracts	130,538	144,237
Other current liabilities	230,790	209,518
Total current liabilities	741,809	888,426
Long-term debt	919,187	891,817
Deferred income taxes	34,049	35,442
Insurance liabilities	62,345	60,663
Retirement plan liabilities	190,758	190,153
Other liabilities	55,042	46,497
Total liabilities	2,003,190	2,112,998
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Harsco Corporation stockholders’ equity:		
Preferred stock, Series A junior participating cumulative preferred stock	—	—
Common stock	139,186	138,925
Additional paid-in capital	136,160	137,083
Accumulated other comprehensive loss	(152,067)	(208,299)
Retained earnings	2,110,374	2,079,170
Treasury stock	(735,016)	(733,203)
Total Harsco Corporation stockholders’ equity	1,498,637	1,413,676
Noncontrolling interests	35,500	36,296
Total equity	1,534,137	1,449,972
Total liabilities and equity	$3,537,327	$3,562,970

(a) On January 1, 2009, the Company adopted changes issued by the Financial Accounting Standards Board related to consolidation accounting and reporting. These changes, among others, require that minority interests be renamed noncontrolling interests and that a company present such noncontrolling interests as equity for all periods presented. Results have been reclassified accordingly.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30	
(In thousands)	2009	2008 (a)
Cash flows from operating activities:		
Net income	$84,564	$233,784
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	208,014	237,769
Amortization	20,627	23,104
Equity in income of unconsolidated entities, net	(280)	(932)
Dividends or distributions from unconsolidated entities	200	484
Other, net	2,688	4,826
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Accounts receivable	55,251	(104,498)
Inventories	23,230	(48,226)
Accounts payable	(55,162)	13,082
Accrued interest payable	20,935	26,948
Accrued compensation	(19,439)	(11,669)
Other assets and liabilities	(63,934)	7,360
Net cash provided by operating activities	276,694	382,032
Cash flows from investing activities:		
Purchases of property, plant and equipment	(123,072)	(380,878)
Purchases of businesses, net of cash acquired	(12,732)	(15,539)
Proceeds from sales of assets	11,521	20,700
Other investing activities	(3,016)	9,305
Net cash used by investing activities	(127,299)	(366,412)
Cash flows from financing activities:		
Short-term borrowings, net	(84,303)	(19,109)
Current maturities and long-term debt:		
Additions	292,996	792,552
Reductions	(296,854)	(713,945)
Cash dividends paid on common stock	(47,750)	(49,336)
Dividends paid to noncontrolling interests	(2,466)	(4,906)
Purchase of noncontrolling interests	(12,953)	—
Contributions of equity from noncontrolling interest	5,332	—
Common stock issued-options	444	1,537
Common stock acquired for treasury	—	(52,962)
Other financing activities	—	(889)
Net cash used by financing activities	(145,554)	(47,058)
Effect of exchange rate changes on cash	2,530	(493)

Net increase (decrease) in cash and cash equivalents	6,371	(31,931)
Cash and cash equivalents at beginning of period	91,336	121,833
Cash and cash equivalents at end of period	$97,707	$89,902

(a) On January 1, 2009, the Company adopted changes issued by the Financial Accounting Standards Board related to consolidation accounting and reporting. These changes, among others, require that minority interests be renamed noncontrolling interests for all periods presented. Results have been reclassified accordingly.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

	Harsco Corporation Stockholders' Equity						
	Common Stock						
(In thousands, except share and per share amounts)	Issued	Treasury	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest (a)	Total Equity
Beginning Balances, January 1, 2008	$138,665	$(603,169)	$128,622	$1,903,049	$ (129)	$ 38,023	$1,605,061
Net income				227,206		6,578	233,784
Cash dividends declared:							
Common @ $0.585 per share				(49,187)			(49,187)
Noncontrolling interests						(4,906)	(4,906)
Translation adjustments, net of deferred income taxes of $26,818					(34,906)	199	(34,707)
Cash flow hedging instrument adjustments, net of deferred income taxes of $(3,035)					7,420		7,420
Pension liability adjustments, net of deferred income taxes of $(9,153)					21,853		21,853
Marketable securities unrealized loss, net of deferred income taxes of $21					(38)		(38)
Stock options exercised, 102,076 shares	128		2,681				2,809
Net issuance of stock – vesting of restricted stock units, 56,847 shares	108	(1,457)	(8)				(1,357)
Treasury shares repurchased, 1,053,633 shares		(52,962)					(52,962)
Amortization of unearned compensation on restricted stock units, net of forfeitures			4,099				4,099
	$138,901	$(657,588)	$135,394	$2,081,068	$ (5,800)	$ 39,894	$1,731,869

Balances, September 30, 2008							
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 interests			(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 loss, 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

(a) On January 1, 2009, the Company adopted changes issued by the Financial Accounting Standards Board related to consolidation accounting and reporting. These changes, among others, require that minority interests be renamed noncontrolling interests and that a company present such noncontrolling interests as equity for all periods presented. Results have been reclassified accordingly.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30	
(In thousands)	2009	2008 (a)
Net income	$23,301	$81,837
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes	44,565	(127,855)
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of $779 and ($2,341) in 2009 and 2008, respectively	(1,902)	5,730
Reclassification adjustment for gain on cash flow hedging instruments included in net income, net of deferred income taxes of ($325) and $2 in 2009 and 2008, respectively	606	(3)
Pension liability adjustments, net of deferred income taxes of ($4,221)and ($7,188) in 2009 and 2008, respectively	9,334	17,916
Unrealized gain on marketable securities, net of deferred income taxes of ($7) and $0 in 2009 and 2008, respectively	13	1
Total other comprehensive income (loss)	52,616	(104,211)
Total comprehensive income (loss)	75,917	(22,374)
Less: Comprehensive (income) loss attributable to noncontrolling interests	(3,005)	2,228
Comprehensive income (loss) attributable to Harsco Corporation	$72,912	$(20,146)

	Nine Months Ended September 30	
(In thousands)	2009	2008 (a)
Net income	$84,564	$233,784
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes	94,575	(34,707)
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of $9,325 and ($3,040) in 2009 and 2008, respectively	(26,010)	7,430
Reclassification adjustment for gain on cash flow hedging instruments included in net income, net of deferred income taxes of $796 and $5 in 2009 and 2008, respectively	(1,476)	(10)
Pension liability adjustments, net of deferred income taxes of $4,775 and ($9,153) in 2009 and 2008, respectively	(10,569)	21,853

Unrealized gain (loss) loss on marketable securities, net of deferred income taxes of ($5) and $21 in 2009 and 2008, respectively	9	(38)
Total other comprehensive income (loss)	56,529	(5,472)
Total comprehensive income	141,093	228,312
Less: Comprehensive income attributable to noncontrolling interests	(5,479)	(6,777)
Comprehensive income attributable to Harsco Corporation	$135,614	$221,535

(a) On January 1, 2009, the Company adopted changes issued by the Financial Accounting Standards Board related to consolidation accounting and reporting. These changes, among others, require that minority interests be renamed noncontrolling interests and that a company present a consolidated net income measure that includes the amount attributable to such noncontrolling interests for all periods presented. Results have been reclassified accordingly.

See accompanying notes to unaudited condensed consolidated financial statements.

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, with the exception of the adjustments mentioned below, are of a normal recurring nature) that are necessary for a fair presentation are reflected in the condensed consolidated financial statements. The December 31, 2008 Condensed Consolidated Balance Sheet information contained in this Form 10-Q was derived from the 2008 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 2008 Annual Report on Form 10-K.

Operating results and cash flows for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In accordance with changes to consolidation accounting and reporting issued by the Financial Accounting Standards Board ("FASB") and adopted by the Company on January 1, 2009, prior year amounts have been retrospectively adjusted to conform with the current year presentation. See Note J, "Recently Adopted and Recently Issued Accounting Standards," for a further description of these changes.

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 correct errors generated principally by the improper recognition of certain revenues and delaying the recognition of certain expenses by one subsidiary, in one country, during the past three years. Based upon the investigation, which is substantially completed, 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 the current year 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 current quarter and has not revised any previously issued annual financial statements or interim financial data.

B. Review of Operations by Segment

	Three Months Ended September 30, 2009		Three Months Ended September 30, 2008	
(In thousands)	Revenues	Operating Income (Loss)	Revenues	Operating Income (Loss)
Harsco Infrastructure Segment	$279,450	$22,503	$393,292	$59,998
Harsco Metals Segment	275,093	(4,420)	423,831	33,287
Segment Totals	554,543	18,083	817,123	93,285
All Other Category – Harsco Minerals & Rail	189,618	39,624	227,714	41,975

General Corporate	60	(1,283)	60	(1,387)
Totals	$744,221	$56,424	$1,044,897	$133,873

(In thousands)	Nine Months Ended September 30, 2009 Revenues	Nine Months Ended September 30, 2009 Operating Income (Loss)	Nine Months Ended September 30, 2008 Revenues	Nine Months Ended September 30, 2008 Operating Income (Loss)
Harsco Infrastructure Segment	$871,962	$66,267	$1,201,292	$155,970
Harsco Metals Segment	772,958	(3,014)	1,286,037	99,608
Segment Totals	1,644,920	63,253	2,487,329	255,578
All Other Category – Harsco Minerals & Rail	572,986	105,725	644,766	127,953
General Corporate	180	(5,024)	180	(4,439)
Totals	$2,218,086	$163,954	$3,132,275	$379,092

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

(In thousands)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Segment Operating Income	$18,083	$93,285	$63,253	$255,578
All Other Category – Harsco Minerals & Rail	39,624	41,975	105,725	127,953
General Corporate	(1,283)	(1,387)	(5,024)	(4,439)
Operating income from continuing operations	56,424	133,873	163,954	379,092
Equity in income of unconsolidated entities, net	128	282	280	932
Interest income	888	1,066	1,944	2,866
Interest expense	(15,822)	(19,650)	(46,621)	(55,844)
Income from continuing operations before income taxes	$41,618	$115,571	$119,557	$327,046

C. Accounts Receivable and Inventories

At September 30, 2009 and December 31, 2008, Trade accounts receivable of $640.9 million and $648.9 million, respectively, were net of an allowance for doubtful accounts of $30.1 million and $27.9 million, respectively. The provision for doubtful accounts was $2.6 million and $3.5 million for the three months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, the provision for doubtful accounts was $10.8 million and $6.7 million, respectively. Other receivables 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)	September 30 2009	December 31 2008
Finished goods	$ 147,187	$ 156,490
Work-in-process	24,446	21,918
Raw materials and purchased parts	85,284	83,372
Stores and supplies	43,957	47,750
Total Inventories	$ 300,874	$ 309,530

D. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	September 30 2009	December 31 2008
Land and improvements	$45,574	$41,913
Buildings and improvements	199,263	167,606
Machinery and equipment	3,108,658	2,905,398
Uncompleted construction	68,012	75,210
Gross property, plant and equipment	3,421,507	3,190,127
Less accumulated depreciation	(1,928,388)	(1,707,294)
Net property, plant and equipment	$1,493,119	$1,482,833

E. Goodwill and Other Intangible Assets

The following table reflects the changes in carrying amounts of goodwill by segment for the nine months ended September 30, 2009:

Goodwill by Segment

(In thousands)	Harsco Infrastructure Segment	Harsco Metals Segment	All Other Category – Harsco Minerals & Rail	Consolidated Totals
Balance as of December 31, 2008	$220,547	$299,613	$111,330	$631,490
Changes to goodwill	(68)	480	1,746	2,158
Foreign currency translation	15,566	15,447	3,356	34,369
Balance as of September 30, 2009	$236,045	$315,540	$116,432	$668,017

The following table reflects intangible assets by major category:

Intangible Assets

	September 30, 2009		December 31, 2008	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$148,052	$56,180	$138,752	$40,821
Non-compete agreements	1,426	1,310	1,414	1,196
Patents	7,022	4,496	6,316	4,116
Other	65,497	26,019	60,495	19,309
Total	$221,997	$88,005	$206,977	$65,442

During the first nine months of 2009, the Company acquired the following intangible assets (by major class) which are subject to amortization.

Acquired Intangible Assets

(In thousands)	Gross Carrying Amount	Residual Value	Weighted-average Amortization Period
Customer relationships	$ 931	None	6 years
Patents	425	None	15 years
Other	$ 640	None	2 years
Total	$ 1,996		

Amortization expense for intangible assets was $6.5 million and $19.0 million for the third quarter and first nine months of 2009, respectively. This compares with $7.1 million and $21.6 million for the third quarter and first nine months of 2008, respectively. The following table shows the estimated amortization expense for the next five fiscal years based on current intangible assets:

(In thousands)	2009	2010	2011	2012	2013
Estimated amortization expense (a)	$25,500	$24,500	$23,400	$11,100	$9,700

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

F. Acquisitions and Dispositions

Acquisitions

In April 2009, the Company acquired the noncontrolling interests of three of its Asia Pacific region consolidated subsidiaries in the Harsco Metals Segment for $12.9 million. The acquisition of these partnership interests was accounted for as an equity transaction since the Company retained its controlling interest in the subsidiaries.

In August 2009, the Company acquired the noncontrolling interests of four of its Eastern Europe region consolidated subsidiaries in the Harsco Infrastructure Segment for $0.6 million. The acquisition of these partnership interests was accounted for as an equity transaction since the Company retained its controlling interest in the subsidiaries.

In September 2009, the Company formed a partnership in Saudi Arabia that will provide highly-engineered scaffolding and formwork systems and expert installation services to the infrastructure and construction markets. The Company contributed $5.3 million to form this partnership, which has been included in the Harsco Infrastructure Segment. In September 2009, the partnership acquired the net assets of Saudi Express Transport LLC, a Saudi Arabia-based provider of similar services that generated revenues of approximately $22 million in 2008.

In October 2009, the Company acquired Nicol UK Ltd., a United Kingdom-based multi-disciplined provider of industrial maintenance services, multi-craft site services, and scaffolding to major petrochemical, energy and industrial clients. This business generated revenues of approximately $25 million in 2008 and has been included in the Harsco Infrastructure Segment.

Inclusion of the pro-forma financial information for the above transactions is not necessary due to the immaterial size of the acquisitions.

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.

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	2009	2008	2009	2008
Net income attributable to the Company	$20,182	$80,284	$79,382	$227,206
Decrease in the Company's paid-in capital for purchase of partnership interests	(1,681)	—	(3,905)	—
Change from net income attributable to the Company and transfers to noncontrolling interest	$18,501	$80,284	$75,477	$227,206

Dispositions

On December 7, 2007, the Company sold its Gas Technologies Segment to Wind Point Partners, a private equity investment firm. The terms of the sale include a total purchase price of $340 million, including $300 million paid in cash at closing and $40 million payable in the form of an earnout contingent on the Gas Technologies group achieving certain performance targets in 2008 or 2009. The thresholds for achieving the earnout for 2008 were not met and the Company does not expect them to be met for 2009. The Company recorded a $26.4 million after-tax gain on the sale in the fourth quarter of 2007. The Company recorded $14.5 million in after-tax charges in Discontinued Operations in the first nine months of 2009 related to the settlement of working capital adjustment claims and other costs associated with arbitration proceedings as described in Note G, "Commitments and Contingencies."

G. Commitments and Contingencies

Environmental

The Company is involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a "potentially responsible party" for certain waste disposal sites. While each of these matters is subject to various uncertainties, it is probable that the Company will agree to make payments toward funding certain of these activities and it is possible that some of these matters will be decided unfavorably to the Company. The Company has evaluated its potential liability, and its financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Consolidated Balance Sheets at September 30, 2009 and December 31, 2008 include accruals in Other current liabilities of $4.2 million and $3.2 million, respectively, for environmental matters. There were no amounts charged against pre-tax income related to environmental matters in the third quarter of 2009 as compared with $0.2 million in the same period of 2008. Amounts charged against pre-tax income for the first nine months totaled $1.2 million and $1.0 million for 2009 and 2008, respectively.

The Company and an unrelated third party received a notice of violation in November 2007 from the United States Environmental Protection Agency ("the EPA"), in connection with an alleged violation by the Company and such third party of certain applicable federally enforceable air pollution control requirements in connection with the operation of a slag processing area located on the third party's Pennsylvania facility. The Company and such third party have promptly taken steps to remedy the situation. The Company and the third party have reached an agreement in principle with the EPA to resolve this matter and are in the process of finalizing this agreement. The Company anticipates that its portion of any penalty would exceed $0.1 million. However, the Company does not expect that any sum it may have to pay in connection with this matter would have a material adverse effect on its financial position, results of operations or cash flows.

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

Other

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

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

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

As of September 30, 2009, there are 26,142 pending asbestos personal injury claims filed against the Company. Of these cases, 25,623 were pending in the New York Supreme Court for New York County in New York State. The other claims, totaling 519, 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, 2009, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in 18,232 cases.

In view of the persistence of asbestos litigation nationwide, which has not yet been sufficiently addressed either politically or legally, the Company expects to continue to receive additional claims. However, there have been developments during the past several years, both by certain state legislatures and by certain state courts, which could favorably affect the Company's ability to defend these asbestos claims in those jurisdictions. These developments include procedural changes, docketing changes, proof of damage requirements and other changes that require plaintiffs to follow specific procedures in bringing their claims and to show proof of damages before they can proceed with their claim. An example is the action taken by the New York Supreme Court (a trial court), which is responsible for managing all asbestos cases pending within New York County in the State of New York. This Court issued an order in December 2002 that created a Deferred or Inactive Docket for all pending and future asbestos claims filed by plaintiffs who cannot demonstrate that they have a malignant condition or discernable physical impairment, and an Active or In Extremis Docket for plaintiffs who are able to show such medical condition. As a result of this order, the majority of the asbestos cases filed against the Company in New York County have been moved to the Inactive Docket until such time as the plaintiffs can show that they have incurred a physical impairment. As of September 30, 2009, the Company has been listed as a defendant in 394 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 which are based on the Company's history of claims and losses, a detailed analysis of existing claims with respect to potential value, and current legal and legislative trends. If actual claims differ from those projected by management, changes (either increases or decreases) to insurance reserves may be required and would be recorded through income in the period the change was determined. When a recognized liability is covered by third-party insurance, the Company records an insurance claim receivable to reflect the covered liability. Insurance claim receivables are included in Other receivables in the Company's Consolidated Balance Sheets. See Note 1, "Summary of Significant Accounting Policies," of the Company's Form 10-K for the year ended December 31, 2008, for additional information on Accrued Insurance and Loss Reserves.

Gas Technologies Divestiture

In October 2009, the Company and Taylor-Wharton International, the purchaser of the Company's Gas Technologies business, satisfactorily resolved the open claims and counterclaims that were submitted to arbitration. The claims and counterclaims related to both net working capital adjustments associated with the divestiture and the alleged breach of certain representations and warranties made by the Company. The settlement and related costs and fees were reflected in the $14.5 million after-tax loss from discontinued operations for the nine months ended September 30, 2009.

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 $12.0 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 would not have a material adverse effect on the Company's annual results of operations, cash flows or financial condition.

H. Reconciliation of Basic and Diluted Shares

	Three Months Ended September 30		Nine Months Ended September 30	
(Amounts in thousands, except per share data)	2009	2008	2009	2008
Income from continuing operations attributable to Harsco Corporation common stockholders	$31,974	$83,970	$93,867	$231,232
Weighted average shares outstanding - basic	80,315	84,089	80,285	84,244
Dilutive effect of stock-based compensation	316	448	272	468
Weighted average shares outstanding - diluted	80,631	84,537	80,557	84,712

Earnings from continuing operations per common share, attributable to Harsco Corporation common stockholders:

Basic	$0.40	$1.00	$1.17	$2.74
Diluted	$0.40	$0.99	$1.17	$2.73

At September 30, 2009, all restricted stock units outstanding were included in the three months calculation of diluted earnings per share but 29 thousand restricted stock units were not included in the nine months calculation, because the effect was antidilutive. All outstanding stock options at September 30, 2009 and all outstanding stock options and restricted stock units at September 30, 2008 were included in the computation of diluted earnings per share for the respective three month and nine month periods.

I. Employee Benefit Plans

Defined Benefit Net Periodic Pension Cost (Income) (In thousands)	Three Months Ended September 30			
	U. S. Plans		International Plans	
	2009	2008	2009	2008
Defined benefit plans:				
Service cost	$447	$373	$1,062	$2,281
Interest cost	3,523	3,727	11,296	13,202
Expected return on plan assets	(3,647)	(5,862)	(10,939)	(15,337)
Recognized prior service costs	88	83	92	244
Recognized losses	857	292	2,477	2,742
Amortization of transition liability	—	—	9	9
Curtailment gain	—	—	(79)	—
Defined benefit plans net periodic pension cost (income) – continuing operations	$1,268	$(1,387)	$3,918	$3,141

Defined Benefit Net Periodic Pension Cost (Income) (In thousands)	Nine Months Ended September 30			
	U. S. Plans		International Plans	
	2009	2008	2009	2008
Defined benefit plans:				
Service cost	$1,311	$1,367	$2,998	$7,082
Interest cost	10,331	11,470	32,245	41,141
Expected return on plan assets	(10,693)	(17,951)	(31,212)	(47,823)
Recognized prior service costs	257	250	264	753
Recognized losses	2,512	876	6,756	8,561
Amortization of transition liability	—	—	23	28
Curtailment/settlement gain	—	(866)	(79)	—
Defined benefit plans net periodic pension cost (income)	3,718	(4,854)	10,995	9,742
Less Discontinued Operations included in above	—	(694)	—	—
Defined benefit plans net periodic pension cost (income) – continuing operations	$3,718	$(4,160)	$10,995	$9,742

Defined benefit net periodic pension cost in the nine months ended September 30, 2009 was $9.1 million higher, when compared with the first nine months of 2008. This was principally due to lower than expected plan assets at the 2008 plan measurement date which resulted in a decrease in expected return on plan assets. Net periodic pension cost from continuing operations for the full year ending December 31, 2009 is expected to be approximately $20 million, compared with $8.2 million for the year ended December 31, 2008.

In the quarter ended September 30, 2009, the Company contributed $0.4 million and $4.2 million to the U.S. and international defined benefit pension plans, respectively. In the nine months ended September 30, 2009, the Company contributed $2.3 million and $14.7 million to the U.S. and international defined benefit pension plans, respectively. The Company currently anticipates contributing approximately $1 million and $11 million for the U.S. and international plans, respectively, during the remainder of 2009.

In the quarter ended September 30, 2009, the Company contributed $4.8 million and $5.6 million to multiemployer and defined contribution pension plans, respectively. In the nine months ended September 30, 2009, the Company contributed $16.8 million and $11.1 million to multiemployer and defined contribution plans, respectively.

J. Recently Adopted and Recently Issued Accounting Standards

The following accounting standards were adopted in 2009:

On September 30, 2009, the Company adopted changes issued by the FASB to the authoritative hierarchy of accounting principles generally accepted in the United States ("GAAP"). These changes established the FASB Accounting Standards CodificationTM ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. The adoption of these changes had no impact on the Company's consolidated financial statements, other than the manner in which new accounting standards are referenced.

On June 30, 2009, the Company adopted changes issued by the FASB related 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. Specifically, these changes set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of these changes had no impact on the Company's consolidated financial statements as the Company's existing method of accounting for and disclosing subsequent events did not significantly change.

On June 30, 2009, the Company adopted changes issued by the FASB that require a publicly traded company to disclose the fair value of its financial instruments whenever summarized financial information for interim reporting periods is issued. Such disclosures include the fair value of all financial instruments, for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position; the related carrying amount of these financial instruments; and the method(s) and significant assumptions used to estimate the fair value. Other than the required disclosures included in Note K, "Derivative Instruments, Hedging Activities and Fair Value," the adoption of these changes had no impact on the Company's consolidated financial statements.

On January 1, 2009, the Company adopted changes issued by the FASB related to disclosures about an entity's derivative and hedging activities, including:

- how and why an entity uses derivative instruments,
- how derivative instruments and related hedged items are accounted for, and
- how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

Other than the required disclosures included in Note K, "Derivative Instruments, Hedging Activities and Fair Value," the adoption of these changes had no material impact on the Company's consolidated financial statements.

On January 1, 2009, the Company adopted changes issued by the FASB related to the consolidation accounting and reporting for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. These changes define a noncontrolling interest, previously called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. These changes require, among other items, that a noncontrolling interest be included in the consolidated statement of financial position within equity separate from the parent's equity; consolidated net income to be reported at amounts inclusive of both the parent's and noncontrolling interest's shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statement of operations; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. The presentation and disclosure requirements of these changes have been applied retrospectively. Other than the change in presentation of noncontrolling interests, the adoption of these changes had no material impact on the Company's consolidated financial statements.

On January 1, 2009, the Company adopted changes issued by the FASB related to the fair value accounting and reporting of nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. These changes define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. This standard applies to other GAAP that require or permit fair value measurements and is to be applied prospectively with limited exceptions. The adoption of these changes as they relate to nonfinancial assets and nonfinancial liabilities had no impact on the Company's consolidated financial statements. These provisions will be applied at such time when a nonrecurring, fair value measurement of a nonfinancial asset or nonfinancial liability is required, which may result in a fair value that could be materially different than would have been calculated prior to the adoption of these changes.

Effective January 1, 2009, the Company adopted changes issued by the FASB on April 1, 2009 related to the accounting for business combinations. These changes apply to all assets acquired and liabilities assumed in a business combination that arise from certain contingencies and requires (i) an acquirer to recognize at fair value, at the acquisition date, an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period; otherwise the asset or liability should be recognized at the acquisition date if certain defined criteria are met; (ii) contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be recognized initially at fair value; (iii) subsequent measurements of assets and liabilities arising from contingencies be based on a systematic and rational method depending on their nature and contingent consideration arrangements be measured subsequently; and (iv) disclosures of the amounts and measurement basis of such assets and liabilities and the nature of the contingencies. These changes are effective for the Company for all business combinations after December 31, 2008. The effect of its adoption will depend on the nature of contingencies in business combinations after the effective date.

The following accounting standards were issued in 2009 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. The Company is currently evaluating the requirements of these changes and has not yet determined the impact on the consolidated financial statements.

In June 2009, the FASB issued changes related to the 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 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 provide enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity.

These changes become effective for the Company on January 1, 2010 and are not expected to have a material effect on the Company's consolidated financial statements.

In December 2008, the FASB issued changes related to employers' disclosures about postretirement benefit plan assets. These changes require disclosure of how investment allocation decisions are made; major categories of plan assets; inputs and valuation techniques used to measure fair value of plan assets; the effect of fair value measurements using significant unobservable inputs on changes in plan assets; and significant concentrations of risk within plan assets. These changes become effective for the Company's year-end December 31, 2009 consolidated financial statements. As these changes only require enhanced disclosures, the adoption of these changes will only impact notes to 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, these deferred gains and losses are reclassified to earnings within one year of the balance sheet date. The ineffective portion of all hedges, if any, is recognized currently in earnings.

The fair value of outstanding derivative contracts recorded as assets and liabilities in the accompanying September 30, 2009 Condensed Consolidated Balance Sheet were as follows:

	Fair Values of Derivative Contracts At September 30, 2009		
(In thousands)	Other current assets	Other assets	Other current liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward exchange contracts	$ —	$ —	$ 36
Commodity contracts	212	—	1,449
Cross-currency interest rate swap	—	7,779	—
Total derivatives designated as hedging instruments	$ 212	$ 7,779	$ 1,485
Derivatives not designated as hedging instruments:			
Foreign currency forward exchange contracts	$ 1,233	$ —	$ 1,035

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

Derivatives Designated as Hedging Instruments

(In thousands)	Amount of Loss Recognized in Other Comprehensive Income ("OCI") on Derivative - Effective Portion	Location of Loss Reclassified from Accumulated OCI into Income - Effective Portion	Amount of Loss 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 September 30, 2009:					
Foreign currency forward exchange contracts	$ (57)	Cost of services and products sold	$ (8)		$ —
	(1,130)	Service Revenues	(923)	Service Revenues	259

Commodity contracts				
Cross-currency interest rate swap	(1,494)	—	Cost of services and products sold	(7,920) (a)
	$ (2,681)	$ (931)		$ (7,661)

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Derivatives Designated as Hedging Instruments

(In thousands)	Amount of Loss Recognized in Other Comprehensive Income (“OCI”) on Derivative - Effective Portion