HARSCO CORP
Form 10-Q
November 01, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012
or

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

For the transition period from to
Commission File Number 001-03970
HARSCO CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý 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 ý 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 ý	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 ý

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 15, 2012
Common stock, par value $1.25 per share	80,584,628

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
HARSCO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	September 30 2012	December 31 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$113,740	$121,184
Trade accounts receivable, net	619,403	618,475
Other receivables	40,296	44,431
Inventories	262,512	241,934
Other current assets	105,465	133,407
Total current assets	1,141,416	1,159,431
Property, plant and equipment, net	1,245,180	1,274,484
Goodwill	691,378	680,901
Intangible assets, net	81,657	93,501
Other assets	140,300	130,560
Total assets	$3,299,931	$3,338,877
LIABILITIES		
Current liabilities:		
Short-term borrowings	$12,982	$51,414
Current maturities of long-term debt	1,885	3,558
Accounts payable	231,320	252,329
Accrued compensation	95,493	92,603
Income taxes payable	10,812	8,409
Dividends payable	16,520	16,498
Insurance liabilities	21,907	25,075
Advances on contracts	76,375	111,429
Other current liabilities	206,215	220,953
Total current liabilities	673,509	782,268
Long-term debt	953,634	853,800
Deferred income taxes	24,420	27,430
Insurance liabilities	62,676	60,864
Retirement plan liabilities	328,994	343,842
Other liabilities	58,109	50,755
Total liabilities	2,101,342	2,118,959
COMMITMENTS AND CONTINGENCIES		
HARSCO CORPORATION STOCKHOLDERS' EQUITY		
Preferred stock	—	—
Common stock	140,080	139,914
Additional paid-in capital	152,943	149,066
Accumulated other comprehensive loss	(356,062)	(364,191)
Retained earnings	1,956,383	1,996,234
Treasury stock	(745,205)	(744,644)
Total Harsco Corporation stockholders' equity	1,148,139	1,176,379
Noncontrolling interests	50,450	43,539
Total equity	1,198,589	1,219,918

Total liabilities and equity	$3,299,931	$3,338,877

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands, except per share amounts)	2012	2011	2012	2011
Revenues from continuing operations:				
Service revenues	$571,892	$682,885	$1,769,415	$2,059,928
Product revenues	184,891	172,979	510,278	450,082
Total revenues	756,783	855,864	2,279,693	2,510,010
Costs and expenses from continuing operations:				
Cost of services sold	453,304	545,008	1,406,727	1,643,202
Cost of products sold	126,683	126,395	351,707	305,833
Selling, general and administrative expenses	121,856	129,006	376,653	407,957
Research and development expenses	2,162	1,577	6,908	4,290
Other expenses	2,383	3,050	65,351	4,431
Total costs and expenses	706,388	805,036	2,207,346	2,365,713
Operating income from continuing operations	50,395	50,828	72,347	144,297
Interest income	1,449	683	3,005	2,022
Interest expense	(11,609)	(12,230)	(36,041)	(36,809)
Income from continuing operations before income taxes and equity income	40,235	39,281	39,311	109,510
Income tax expense	(13,545)	(7,078)	(28,489)	(24,813)
Equity in income of unconsolidated entities, net	182	194	479	530
Income from continuing operations	26,872	32,397	11,301	85,227
Discontinued operations:				
Loss on disposal of discontinued business	(52)	(636)	(1,217)	(2,708)
Income tax benefit related to discontinued business	248	229	685	1,018
Income (loss) from discontinued operations	196	(407)	(532)	(1,690)
Net income	27,068	31,990	10,769	83,537
Less: Net income attributable to noncontrolling interests	(664)	(190)	(1,023)	(2,579)
Net income attributable to Harsco Corporation	$26,404	$31,800	$9,746	$80,958
Amounts attributable to Harsco Corporation common stockholders:				
Income from continuing operations, net of tax	$26,208	$32,207	$10,278	$82,648
Income (loss) from discontinued operations, net of tax	196	(407)	(532)	(1,690)
Net income attributable to Harsco Corporation common stockholders	$26,404	$31,800	$9,746	$80,958
Weighted-average shares of common stock outstanding	80,659	80,767	80,623	80,737
Basic earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	$0.32	$0.40	$0.13	$1.02
Discontinued operations	—	(0.01)	(0.01)	(0.02)
Basic earnings per share attributable to Harsco Corporation common stockholders	$0.33 (a)	$0.39	$0.12	$1.00

Diluted weighted-average shares of common stock outstanding	80,910	81,037	80,863	80,997
Diluted earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	$0.32	$0.40	$0.13	$1.02
Discontinued operations	—	(0.01)	(0.01)	(0.02)
Diluted earnings per share attributable to Harsco Corporation common stockholders	$0.33 (a)	$0.39	$0.12	$1.00
Cash dividends declared per common share	$0.205	$0.205	$0.615	$0.615

(a) Does not total due to rounding

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

	Three Months Ended September 30	
(In thousands)	2012	2011
Net income	$27,068	$31,990
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes	38,812	(95,047)
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of $242 and $(2,107) in 2012 and 2011, respectively	(760)	8,355
Pension liability adjustments, net of deferred income taxes of $1,514 and $(3,691) in 2012 and 2011, respectively	(10,143)	9,184
Unrealized gain (loss) on marketable securities, net of deferred income taxes of $(1) and $7 in 2012 and 2011, respectively	1	(11)
Total other comprehensive income (loss)	27,910	(77,519)
Total comprehensive income (loss)	54,978	(45,529)
Less: Comprehensive loss attributable to noncontrolling interests	1,265	610
Comprehensive income (loss) attributable to Harsco Corporation	$56,243	$(44,919)

	Nine Months Ended September 30	
(In thousands)	2012	2011
Net income	$10,769	$83,537
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes	7,733	(40,815)
Net gain on cash flow hedging instruments, net of deferred income taxes of $(653) and $(3,849) in 2012 and 2011, respectively	1,941	15,043
Pension liability adjustments, net of deferred income taxes of $189 and $(2,744) in 2012 and 2011, respectively	(1,294)	6,948
Unrealized gain (loss) on marketable securities, net of deferred income taxes of $(2) and $9 in 2012 and 2011, respectively	3	(14)
Total other comprehensive income (loss)	8,383	(18,838)
Total comprehensive income	19,152	64,699
Less: Comprehensive (income) loss attributable to noncontrolling interests	1,277	(2,538)
Comprehensive income attributable to Harsco Corporation	$20,429	$62,161

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30	
(In thousands)	2012	2011
Cash flows from operating activities:		
Net income	$10,769	$83,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	188,182	207,330
Amortization	15,662	25,950
Equity in income of unconsolidated entities, net	(479)	(530)
Dividends or distributions from unconsolidated entities	308	160
Harsco 2011/2012 Restructuring Program non-cash adjustments	21,787	—
Other, net	(29,263)	(3,674)
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Accounts receivable	(1,247)	(76,972)
Inventories	(23,298)	(6,667)
Accounts payable	(24,719)	3,150
Accrued interest payable	5,786	6,651
Accrued compensation	2,286	13,640
Harsco Infrastructure Segment 2010 Restructuring Program accrual	(4,755)	(16,697)
Harsco 2011/2012 Restructuring Program accrual	(8,050)	—
Other assets and liabilities	(41,600)	(45,771)
Net cash provided by operating activities	111,369	190,107
Cash flows from investing activities:		
Purchases of property, plant and equipment	(172,770)	(240,820)
Proceeds from sales of assets	42,889	37,180
Purchases of businesses, net of cash acquired	(517)	(1,938)
Other investing activities, net	457	10,115
Net cash used by investing activities	(129,941)	(195,463)
Cash flows from financing activities:		
Short-term borrowings, net	(39,302)	28,941
Current maturities and long-term debt:		
Additions	249,034	215,422
Reductions	(151,399)	(210,761)
Cash dividends paid on common stock	(49,548)	(49,599)
Dividends paid to noncontrolling interests	(2,264)	(3,322)
Contributions from noncontrolling interests	8,097	9,074
Common stock issued - options	725	1,668
Other financing activities, net	(2,709)	(1)
Net cash provided (used) by financing activities	12,634	(8,578)
Effect of exchange rate changes on cash	(1,506)	(4,016)
Net decrease in cash and cash equivalents	(7,444)	(17,950)
Cash and cash equivalents at beginning of period	121,184	124,238
Cash and cash equivalents at end of period	$113,740	$106,288

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

	Harsco Corporation Stockholders' Equity						
	Common Stock						
(In thousands, except share and per share amounts)	Issued	Treasury	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balances, January 1, 2011	$139,514	$(737,106)	$141,298	$2,073,920	$(185,932)	$36,451	$1,468,145
Net income				80,958		2,579	83,537
Cash dividends declared:							
Common @ $0.615 per share				(49,667)			(49,667)
Noncontrolling interests						(3,322)	(3,322)
Translation adjustments, net of deferred income taxes of $(656)					(40,774)	(41)	(40,815)
Cash flow hedging instrument adjustments, net of deferred income taxes of $(3,849)					15,043		15,043
Contributions from noncontrolling interests						9,592	9,592
Pension liability adjustments, net of deferred income taxes of $(2,744)					6,948		6,948
Marketable securities unrealized loss, net of deferred income taxes of $9					(14)		(14)
Stock options exercised, 106,022 shares	133		1,508				1,641
Vesting of restricted stock units, net 92,630 shares	151	(910)	985				226
Amortization of unearned portion of stock-based compensation, net of forfeitures			2,720				2,720
Balances, September 30, 2011	$139,798	$(738,016)	$146,511	$2,105,211	$(204,729)	$45,259	$1,494,034

	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 Loss	Noncontrolling Interests	Total
Balances, January 1, 2012	$139,914	$(744,644)	$149,066	$1,996,234	$(364,191)	$43,539	$1,219,918
Net income				9,746		1,023	10,769
Cash dividends declared:							
Common @ $0.615 per share				(49,597)			(49,597)
Noncontrolling interests						(2,264)	(2,264)
Translation adjustments, net of deferred income taxes of $(4,618)					7,479	254	7,733
Cash flow hedging instrument adjustments, net of deferred income taxes of $(653)					1,941		1,941

Contributions from noncontrolling interests						8,602	8,602
Sale of investment in consolidated subsidiary						(704)	(704)
Pension liability adjustments, net of deferred income taxes of $189					(1,294)		(1,294)
Marketable securities unrealized gain, net of deferred income taxes of $(2)					3		3
Stock options exercised, 38,900 shares	49		661				710
Vesting of restricted stock units and other stock grants, net 68,558 shares	117	(561)	959				515
Amortization of unearned portion of stock-based compensation, net of forfeitures			2,257				2,257
Balances, September 30, 2012	$140,080	$(745,205)	$152,943	$1,956,383	$(356,062)	$50,450	$1,198,589

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

Harsco Corporation (the "Company") has prepared these unaudited condensed consolidated financial statements based on Securities and Exchange Commission rules that permit reduced disclosure for interim periods. 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 unaudited condensed consolidated financial statements. The December 31, 2011 Condensed Consolidated Balance Sheet information contained in this Quarterly Report on Form 10-Q was derived from the 2011 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for an annual 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 Annual Report on Form 10-K for the year ended December 31, 2011.

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 U.S. GAAP.

Operating results and cash flows for the three and nine months ended September 30, 2012 are not indicative of the results that may be expected for the year ending December 31, 2012.

2. Recently Adopted and Recently Issued Accounting Standards

The following accounting standards have been adopted in 2012:

On January 1, 2012, the Company adopted Financial Accounting Standards Board ("FASB") issued changes related to fair value measurement and disclosure. The changes are the result of convergence with International Financial Reporting Standards and clarify certain fair value measurement concepts and expand on existing disclosure requirements on Level 3 fair value measurements. The adoption of these changes did not have a material impact on the Company's consolidated financial statements.

On January 1, 2012, the Company adopted FASB issued changes related to the presentation of comprehensive income. The changes remove certain presentation options and require entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. There were no changes to the items that are reported in other comprehensive income. In December 2011, the FASB indefinitely deferred a requirement dealing with the presentation of reclassification adjustments out of accumulated other comprehensive income. Other than the sequencing of financial statements, the adoption of these changes did not have an impact on the Company's consolidated financial statements.

On January 1, 2012, the Company adopted FASB issued changes related to testing for goodwill impairment. The changes allow for an assessment of qualitative factors to determine whether it is necessary to perform the two-step impairment test. The adoption of these changes will not have an impact on the Company's consolidated financial statements, but it may impact the manner in which the Company performs testing for goodwill impairment.

The following accounting standard has been issued and becomes effective for the Company at a future date:

In December 2011, the FASB issued changes related to offsetting assets and liabilities. The changes require additional disclosure information regarding offsetting assets and liabilities to enable users of financial statements to understand the effect on financial position. These changes become effective for the Company on January 1, 2013 with retrospective application required. Management has determined these changes will not have a material impact on the Company's consolidated financial statements.

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3. Acquisitions and Dispositions

Acquisitions

Certain of the Company's acquisitions in prior years included contingent consideration features for which defined goals needed to be met by the acquired business in order for payment of the consideration. Each quarter until settlement of these contingencies, the Company assessed the likelihood that an acquired business would achieve the goals and the resulting fair value of the contingency. In accordance with U.S. GAAP, these adjustments were recognized in operating income in the Condensed Consolidated Statements of Income as a component of the Other expenses line item. The Company's assessment of these performance goals resulted in the following reductions to previously recognized contingent consideration liabilities:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	2012	2011	2012	2011
Reduction of contingent consideration liabilities	$—	$—	$—	$3,966

All contingent consideration liabilities have been settled and there was no recorded contingent consideration liability as of September 30, 2012 or December 31, 2011.

Dispositions - Assets Held-for-Sale

Throughout the past several years and in conjunction with the 2011/2012 Restructuring Program and the Fourth Quarter 2010 Harsco Infrastructure Program, management approved the sale of certain long-lived assets throughout the Company's operations. At September 30, 2012 and December 31, 2011, assets held-for-sale of $2.1 million and $7.2 million, respectively, were recorded as Other current assets on the Condensed Consolidated Balance Sheets.

4. Accounts Receivable and Inventories

Accounts receivable consist of the following:

(In thousands)	September 30 2012	December 31 2011
Trade accounts receivable	$638,372	$636,304
Less: Allowance for doubtful accounts	(18,969)	(17,829)
Trade accounts receivable, net	$619,403	$618,475
Other receivables (a)	$40,296	$44,431

(a) Other receivables include insurance claim receivables, employee receivables, tax claim receivables and other miscellaneous receivables not included in Trade accounts receivable, net.

The provision for doubtful accounts related to trade accounts receivable was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	2012	2011	2012	2011
Provision for doubtful accounts related to trade accounts receivable	$1,802	$1,411	$8,665	$5,159

Inventories consist of the following:

(In thousands)	September 30 2012	December 31 2011
Finished goods	$81,858	$78,445
Work-in-process	40,034	34,041
Raw materials and purchased parts	101,581	92,995
Stores and supplies	39,039	36,453
Inventories	$262,512	$241,934

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5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	September 30 2012	December 31 2011
Land	$26,387	$26,729
Land improvements	21,014	17,960
Buildings and improvements	190,725	186,799
Machinery and equipment	2,966,973	2,977,521
Uncompleted construction	91,056	66,719
Gross property, plant and equipment	3,296,155	3,275,728
Less: Accumulated depreciation	(2,050,975)	(2,001,244)
Property, plant and equipment, net	$1,245,180	$1,274,484

6. Goodwill and Other Intangible Assets

The following table reflects the changes in carrying amounts of goodwill by segment (there is no goodwill associated with the Harsco Industrial Segment) for the nine months ended September 30, 2012:

(In thousands)	Harsco Metals & Minerals Segment	Harsco Infrastructure Segment	Harsco Rail Segment	Consolidated Totals
Balance at December 31, 2011	$411,876	$259,715	$9,310	$680,901
Changes to goodwill (a)	—	(2,304)	—	(2,304)
Foreign currency translation	6,688	6,093	—	12,781
Balance at September 30, 2012	$418,564	$263,504	$9,310	$691,378

(a) Changes to goodwill relate principally to the allocation of goodwill, in accordance with U.S. GAAP, to components of the Harsco Infrastructure Segment that were disposed of as part of the 2011/2012 Restructuring Program.

The Company’s 2011 annual goodwill impairment testing did not result in any impairment of the Company’s goodwill. The fair values of the Harsco Metals business and the Harsco Infrastructure Segment exceeded carrying value by approximately 7.4% and 9.1%, respectively. The Company tests for goodwill impairment annually, and whenever events or circumstances make it more likely than not that impairment may have occurred. The Company performs its annual goodwill impairment test as of October 1 and monitors for interim triggering events on an ongoing basis. The Company determined that as of September 30, 2012, no interim goodwill impairment testing was necessary. There can be no assurance that the Company’s annual goodwill impairment testing will not result in a charge to earnings. Should the Company’s analysis indicate a further degradation in the overall markets served by the Harsco Metals business or Harsco Infrastructure Segment, impairment losses for associated assets could be required. Any impairment could result in the write-down of the carrying value of goodwill to its implied fair value.

Intangible assets by class consist of the following:

	September 30, 2012		December 31, 2011	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	$185,128	$128,844	$183,576	$119,708
Non-compete agreements	1,347	1,307	1,353	1,301
Patents	6,899	5,419	6,884	5,145
Technology related	29,609	16,808	29,497	14,614
Trade names	18,654	10,871	18,538	8,379
Other	10,846	7,577	10,749	7,949
Total	$252,483	$170,826	$250,597	$157,096

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Amortization expense for intangible assets was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	2012	2011	2012	2011
Amortization expense for intangible assets	$4,111	$7,898	$13,518	$23,690

The estimated amortization expense for the next five fiscal years based on current intangible assets and excluding the potential effect of future foreign currency exchange rate fluctuations is as follows:

(In thousands)	2012	2013	2014	2015	2016
Estimated amortization expense	$17,500	$15,750	$13,500	$8,750	$7,500

7. Debt and Credit Agreements

In March 2012, the Company entered into an Amended and Restated Five Year Credit Agreement ("Credit Agreement") in the amount of $525 million through a syndicate of 14 banks. The Credit Agreement matures in March 2017. The Company has the option to increase the amount of the Credit Agreement to $550 million. The Credit Agreement amends and restates the Company's multi-year revolving credit facility, which was set to mature in December 2012. There were no borrowings outstanding under the multi-year revolving credit facility upon execution of the Credit Agreement, and there were no borrowings under the Credit Agreement at September 30, 2012.

The Credit Agreement contains covenants stipulating a maximum debt to capital ratio of 60%; a maximum subsidiary consolidated indebtedness to consolidated tangible assets ratio of 10%; and a minimum total consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest charges ratio of 3.0:1. At September 30, 2012, the Company was in compliance with these covenants. Borrowings under the Credit Agreement are available in most major currencies with active markets and at interest rates based upon LIBOR, plus a margin. During the nine months ended September 30, 2012, the Company expensed $0.5 million of previously deferred financing costs associated with the multi-year revolving credit facility for banks that did not participate in the Credit Agreement or banks with decreased obligations under the Credit Agreement, all of which occurred in the first quarter of 2012.

At September 30, 2012 and December 31, 2011, the Company had $98.1 million and $40.0 million, respectively, of commercial paper outstanding. At September 30, 2012, all commercial paper outstanding was classified as long-term borrowings in the Condensed Consolidated Balance Sheets. At December 31, 2011, all commercial paper outstanding was classified as short-term borrowings in the Consolidated Balance Sheets. Classification of commercial paper outstanding is based on the Company's ability and intent to repay such amounts over the subsequent twelve months, as well as reflects the Company's intent and ability to borrow for a period longer than a year. To the extent the Company expects to repay the commercial paper within the subsequent twelve months, the amounts are classified as short-term borrowings.

At September 30, 2012, the Company's 5.125% notes due September 15, 2013 are classified as Long-term debt on the Condensed Consolidated Balance Sheet based on the Company's intent and ability to refinance this debt using either the debt capital markets or borrowings under its Credit Agreement.

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8. Employee Benefit Plans

Defined Benefit Net Periodic Pension Cost (In thousands)	Three Months Ended September 30 U. S. Plans 2012	2011	International Plans 2012	2011
Defined benefit plans:				
Service cost	$472	$391	$855	$1,120
Interest cost	3,209	3,381	10,996	12,166
Expected return on plan assets	(3,907)	(4,138)	(10,638)	(13,138)
Recognized prior service costs	47	62	95	107
Recognized losses	1,158	749	3,730	2,817
Amortization of transition liability	—	—	—	14
Settlement/curtailment loss	1,112	—	6	—
Defined benefit plans net periodic pension cost	$2,091	$445	$5,044	$3,086

Defined Benefit Net Periodic Pension Cost (In thousands)	Nine Months Ended September 30 U. S. Plans 2012	2011	International Plans 2012	2011
Defined benefit plans:				
Service cost	$1,415	$1,174	$2,781	$3,359
Interest cost	9,620	10,151	33,437	36,469
Expected return on plan assets	(11,713)	(12,423)	(32,373)	(39,386)
Recognized prior service costs	142	186	289	320
Recognized losses	3,471	2,248	11,209	8,443
Amortization of transition liability	—	—	8	43
Settlement/curtailment loss (gain)	1,112	—	(2,055)	30
Defined benefit plans net periodic pension cost	$4,047	$1,336	$13,296	$9,278

Company Contributions (In thousands)	Three Months Ended September 30 2012	2011	Nine Months Ended September 30 2012	2011
Defined benefit pension plans:				
United States	$3,024	$1,459	$5,662	$2,466
International	4,127	6,279	26,298	27,196
Multiemployer pension plans	3,127	3,739	10,901	13,839
Defined contribution pension plans	5,971	5,791	14,405	15,650

The Company currently anticipates contributing an additional $0.6 million and $3.9 million for the U.S. and international defined benefit pension plans, respectively, during the remainder of 2012.

9. Income Taxes

Income tax expense from continuing operations was impacted primarily by certain losses from continuing operations being generated in jurisdictions where no tax benefit can be recognized for the three and nine months ended September 30, 2012 compared with the three and nine months ended September 30, 2011. These losses with no tax benefit resulted in a higher income tax expense on lower levels of income from continuing operations for the nine months ended September 30, 2012 and negatively impacted the effective income tax rates for all periods in 2012.

An income tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on technical merits. The unrecognized income tax benefit at September 30, 2012 was $38.2 million including interest and penalties. Within the next twelve months, it is reasonably possible that up to $4.5 million of unrecognized income tax benefits will be recognized upon settlement of tax examinations and the expiration of various statutes of limitations.

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10. Commitments and Contingencies

Environmental

The Company is involved in a number of environmental remediation investigations and cleanups and, along with other companies, has been identified as a "potentially responsible party" for certain waste disposal sites. While each of these matters is subject to various uncertainties, it is probable that the Company will agree to make payments toward funding certain of these activities and it is possible that some of these matters will be decided unfavorably to the Company. The Company has evaluated its potential liability, and its financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011 include accruals in Other current liabilities of $2.2 million and $2.5 million, respectively, for environmental matters. The amounts charged against pre-tax income related to environmental matters totaled $0.2 million and $0.7 million and for the three and nine months ended September 30, 2012, respectively. The amounts charged against pre-tax income related to environmental matters totaled $0.7 million and $1.5 million for the three and nine months ended September 30, 2011, 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.

Brazilian Tax Disputes

The Company is involved in a number of tax disputes with federal, state and municipal tax authorities in Brazil. These disputes are at various stages of the legal process, including the administrative review phase and the collection action phase, and include assessments of fixed amounts of principal and penalties, plus interest charges that increase at statutorily determined amounts per month and are assessed on the aggregate amount of the principal and penalties. In addition, the losing party at the collection action or court appeals phase could be subject to a charge to cover statutorily mandated legal fees, which are generally calculated as a percentage of the total assessed amounts due, inclusive of penalty and interest. A large number of the claims relate to value-added ("ICMS"), services and social security tax disputes. The largest proportion of the assessed amounts relate to ICMS claims filed by the State Revenue Authorities from the State of São Paulo, Brazil (the "SPRA"), encompassing the period from January 2002 to May 2005.

In October 2009, the Company received notification of the SPRA's final administrative decision regarding the levying of ICMS in the State of São Paulo in relation to services provided to a customer in the State between January 2004 and May 2005. As of September 30, 2012, the principal amount of the tax assessment from the SPRA with regard to this case is approximately $3 million, with penalty, interest and fees assessed to date increasing such amount by an additional $29 million. Any increase in the aggregate amount, since the Company's Annual Report on Form 10-K for the year ended December 31, 2011, is due to an increase in assessed interest and statutorily mandated legal fees for the year. All such amounts include the effect of foreign currency translation.

Another ICMS tax case involving the SPRA refers to the tax period from January 2002 to December 2003, and is still pending at the administrative phase, where the aggregate amount assessed by the tax authorities in August 2005 was $12 million (the amounts with regard to this claim are valued as of the date of the assessment since it has not yet reached the collection phase), composed of a principal amount of approximately $3 million, with penalty and interest assessed through that date increasing such amount by an additional $9 million. All such amounts include the effect of foreign currency translation.

The Company continues to believe that it is not probable it will incur a loss for these assessments by the SPRA and continues to believe that sufficient coverage for these claims exists as a result of the Company's customer's indemnification obligations and such customer's pledge of assets in connection with the October 2009 notice, as required by Brazilian procedure.

The Company intends to continue its practice of vigorously defending itself against these tax claims under various alternatives, including judicial appeal. The Company will continue to evaluate its potential liability with regard to these claims on a quarterly basis; however, it is not possible to predict the ultimate outcome of these tax-related disputes in Brazil.

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Customer Disputes

The Company, through its Harsco Metals & Minerals Segment, provides services to various subsidiaries and affiliates of ArcelorMittal (“ArcelorMittal”) on a number of sites worldwide through long-term service contracts. Currently, ArcelorMittal and the Company are involved in several commercial disputes, a few of which have resulted in legal action. Both the Company and ArcelorMittal are working to resolve these matters. One commercial dispute with ArcelorMittal was recently settled and did not have a material impact on the Company's consolidated financial statements. Although results of operations and cash flows for a given period could be adversely affected by a negative outcome in these or other lawsuits, claims and proceedings, management believes that the ultimate outcome of these matters will not have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

Other

In the United States, 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. 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, 2012, there are 18,341 pending asbestos personal injury claims filed against the Company. Of these cases, 17,845 are pending in the New York Supreme Court for New York County in New York State. The other claims, totaling 496, 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, 2012, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in 26,428 cases.

In view of the persistence of asbestos litigation nationwide, the Company expects to continue to receive additional claims. However, there have been developments during the past several years, both by certain state legislatures and by certain state courts, which could favorably affect the Company’s ability to defend these asbestos claims in those jurisdictions. These developments include procedural changes, docketing changes, proof of damage requirements and other changes that require plaintiffs to follow specific procedures in bringing their claims and to show proof of damages before they can proceed with their claim. An example is the action taken by the New York Supreme Court (a trial court), which is responsible for managing all asbestos cases pending within New York County in the State of New York. This Court issued an order in December 2002 that created a Deferred or Inactive Docket for all pending and future asbestos claims filed by plaintiffs who cannot demonstrate that they have a malignant condition or discernible 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, 2012, the Company has been listed as a defendant in 605 Active or In

Extremis asbestos cases in New York County. The Court's Order has been challenged by some 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 related to the Company's U.S. asbestos cases. 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.

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The Company intends to continue its practice of vigorously defending these claims and cases. 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 established reserves, 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 on the Company’s Condensed Consolidated Balance Sheets. See Note 1, “Summary of Significant Accounting Policies,” to the Company’s consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 for additional information on Accrued Insurance and Loss Reserves.

11. Reconciliation of Basic and Diluted Shares

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands, except per share amounts)	2012	2011	2012	2011
Income from continuing operations attributable to Harsco Corporation common stockholders	$26,208	$32,207	$10,278	$82,648
Weighted-average shares outstanding - basic	80,659	80,767	80,623	80,737
Dilutive effect of stock-based compensation	251	270	240	260
Weighted-average shares outstanding - diluted	80,910	81,037	80,863	80,997
Earnings from continuing operations per common share, attributable to Harsco Corporation common stockholders:				
Basic	$0.32	$0.40	$0.13	$1.02
Diluted	$0.32	$0.40	$0.13	$1.02

The following average outstanding stock-based compensation units were not included in the three and nine month computation of diluted earnings per share because the effect was antidilutive:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	2012	2011	2012	2011
Restricted stock units	34	4	12	1
Stock options	349	589	381	198
Stock appreciation rights	291	—	309	—

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12. Derivative Instruments, Hedging Activities and Fair Value

Derivative Instruments and Hedging Activities

The Company uses derivative instruments, including foreign currency forward exchange contracts, commodity contracts and cross-currency interest rate swaps, 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, at September 30, 2012, these deferred gains and losses will be reclassified to earnings over 10 to 15 years from the balance sheet date. The ineffective portion of all hedges, if any, is recognized currently in earnings.

The fair values of outstanding derivative contracts recorded as assets and liabilities on the Condensed Consolidated Balance Sheets at September 30, 2012 and December 31, 2011 were as follows:

	Asset Derivatives		Liability Derivatives	
(In thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
September 30, 2012				
Derivatives designated as hedging instruments:				
Cross currency interest rate swaps	Other assets	$49,717	Other liabilities	$12,700
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	$1,177	Other current liabilities	$3,346

	Asset Derivatives		Liability Derivatives	
(In thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
December 31, 2011				
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	$274	Other current liabilities	$—
Cross currency interest rate swaps	Other assets	44,636	Other liabilities	1,792
Total derivatives designated as hedging instruments		$44,910		$1,792
Derivatives not designated as hedging instruments:				