HARSCO CORP
Form 10-Q
July 31, 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 June 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 July 13, 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)	June 30 2012	December 31 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$121,369	$121,184
Trade accounts receivable, net	615,198	618,475
Other receivables	33,014	44,431
Inventories	260,961	241,934
Other current assets	114,738	133,407
Total current assets	1,145,280	1,159,431
Property, plant and equipment, net	1,208,058	1,274,484
Goodwill	671,598	680,901
Intangible assets, net	83,964	93,501
Other assets	157,020	130,560
Total assets	$3,265,920	$3,338,877
LIABILITIES		
Current liabilities:		
Short-term borrowings	$25,745	$51,414
Current maturities of long-term debt	2,195	3,558
Accounts payable	242,306	252,329
Accrued compensation	85,293	92,603
Income taxes payable	14,003	8,409
Dividends payable	16,516	16,498
Insurance liabilities	21,579	25,075
Advances on contracts	94,880	111,429
Other current liabilities	205,888	220,953
Total current liabilities	708,405	782,268
Long-term debt	949,625	853,800
Deferred income taxes	22,593	27,430
Insurance liabilities	60,433	60,864
Retirement plan liabilities	320,783	343,842
Other liabilities	44,492	50,755
Total liabilities	2,106,331	2,118,959
COMMITMENTS AND CONTINGENCIES		
HARSCO CORPORATION STOCKHOLDERS’ EQUITY		
Preferred stock	—	—
Common stock	140,055	139,914
Additional paid-in capital	151,619	149,066
Accumulated other comprehensive loss	(383,347)	(364,191)
Retained earnings	1,946,518	1,996,234
Treasury stock	(745,205)	(744,644)
Total Harsco Corporation stockholders’ equity	1,109,640	1,176,379
Noncontrolling interests	49,949	43,539
Total equity	1,159,589	1,219,918

Total liabilities and equity	$3,265,920	$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 June 30		Six Months Ended June 30	
(In thousands, except per share amounts)	2012	2011	2012	2011
Revenues from continuing operations:				
Service revenues	$598,823	$723,516	$1,197,523	$1,377,043
Product revenues	171,752	151,575	325,387	277,103
Total revenues	770,575	875,091	1,522,910	1,654,146
Costs and expenses from continuing operations:				
Cost of services sold	469,998	572,216	953,423	1,098,194
Cost of products sold	114,782	94,997	225,024	179,438
Selling, general and administrative expenses	125,594	141,162	254,797	278,951
Research and development expenses	2,686	1,373	4,746	2,713
Other expenses	22,876	910	62,968	1,381
Total costs and expenses	735,936	810,658	1,500,958	1,560,677
Operating income from continuing operations	34,639	64,433	21,952	93,469
Interest income	882	619	1,556	1,339
Interest expense	(11,608)	(12,644)	(24,432)	(24,579)
Income (loss) from continuing operations before income taxes and equity income	23,913	52,408	(924)	70,229
Income tax expense	(10,446)	(13,335)	(14,944)	(17,735)
Equity in income of unconsolidated entities, net	128	125	297	336
Income (loss) from continuing operations	13,595	39,198	(15,571)	52,830
Discontinued operations:				
Loss on disposal of discontinued business	(515)	(744)	(1,165)	(2,072)
Income tax benefit related to discontinued business	193	286	437	789
Loss from discontinued operations	(322)	(458)	(728)	(1,283)
Net income (loss)	13,273	38,740	(16,299)	51,547
Less: Net income attributable to noncontrolling interests	(562)	(1,013)	(359)	(2,389)
Net income (loss) attributable to Harsco Corporation	$12,711	$37,727	$(16,658)	$49,158
Amounts attributable to Harsco Corporation common stockholders:				
Income (loss) from continuing operations, net of tax	$13,033	$38,185	$(15,930)	$50,441
Loss from discontinued operations, net of tax	(322)	(458)	(728)	(1,283)
Net income (loss) attributable to Harsco Corporation common stockholders	$12,711	$37,727	$(16,658)	$49,158

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME - Continued (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands, except per share amounts)	2012	2011	2012	2011
Weighted-average shares of common stock outstanding	80,631	80,749	80,605	80,722
Basic earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	$0.16	$0.47	$(0.20)	$0.62
Discontinued operations	—	(0.01)	(0.01)	(0.02)
Basic earnings (loss) per share attributable to Harsco Corporation common stockholders	$0.16	$0.47 (a)	$(0.21)	$0.61 (a)
Diluted weighted-average shares of common stock outstanding	80,882	81,010	80,605	80,977
Diluted earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	$0.16	$0.47	$(0.20)	$0.62
Discontinued operations	—	(0.01)	(0.01)	(0.02)
Diluted earnings (loss) per share attributable to Harsco Corporation common stockholders	$0.16	$0.47 (a)	$(0.21)	$0.61 (a)
Cash dividends declared per common share	$0.205	$0.205	$0.41	$0.41

(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)

(In thousands)	Three Months Ended June 30 2012	2011
Net income	$13,273	$38,740
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes	(67,119)	19,420
Net gains on cash flow hedging instruments, net of deferred income taxes of $(680) and $(225) in 2012 and 2011, respectively	1,939	911
Pension liability adjustments, net of deferred income taxes of $(2,118) and $(1,158) in 2012 and 2011, respectively	14,267	2,735
Unrealized loss on marketable securities, net of deferred income taxes of $3 and $2 in 2012 and 2011, respectively	(5)	(3)
Total other comprehensive income (loss)	(50,918)	23,063
Total comprehensive income (loss)	(37,645)	61,803
Less: Comprehensive (income) loss attributable to noncontrolling interests	316	(1,528)
Comprehensive income (loss) attributable to Harsco Corporation	$(37,329)	$60,275

(In thousands)	Six Months Ended June 30 2012	2011
Net income (loss)	$(16,299)	$51,547
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes	(31,079)	54,232
Net gains on cash flow hedging instruments, net of deferred income taxes of $(895) and $(1,742) in 2012 and 2011, respectively	2,701	6,688
Pension liability adjustments, net of deferred income taxes of $(1,325) and $947 in 2012 and 2011, respectively	8,849	(2,236)
Unrealized gain (loss) on marketable securities, net of deferred income taxes of $(1) and $2 in 2012 and 2011, respectively	2	(3)
Total other comprehensive income (loss)	(19,527)	58,681
Total comprehensive income (loss)	(35,826)	110,228
Less: Comprehensive (income) loss attributable to noncontrolling interests	12	(3,148)
Comprehensive income (loss) attributable to Harsco Corporation	$(35,814)	$107,080

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)	Six Months Ended June 30 2012	2011
Cash flows from operating activities:		
Net income (loss)	$(16,299)	$51,547
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	126,889	137,631
Amortization	11,067	17,295
Equity in income of unconsolidated entities, net	(297)	(336)
Dividends or distributions from unconsolidated entities	154	160
Harsco 2011/2012 Restructuring Program non-cash adjustments	19,558	—
Other, net	(15,984)	(3,992)
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Accounts receivable	(5,564)	(87,027)
Inventories	(24,850)	(14,507)
Accounts payable	(7,951)	9,382
Accrued interest payable	31	405
Accrued compensation	(5,719)	1,919
Harsco Infrastructure Segment 2010 Restructuring Program accrual	(2,751)	(11,146)
Harsco 2011/2012 Restructuring Program accrual	(3,508)	—
Other assets and liabilities	(39,029)	(34,466)
Net cash provided by operating activities	35,747	66,865
Cash flows from investing activities:		
Purchases of property, plant and equipment	(107,845)	(166,876)
Proceeds from sales of assets	36,573	33,388
Other investing activities, net	1,348	3,831
Net cash used by investing activities	(69,924)	(129,657)
Cash flows from financing activities:		
Short-term borrowings, net	(26,366)	57,597
Current maturities and long-term debt:		
Additions	219,076	166,924
Reductions	(124,176)	(162,460)
Cash dividends paid on common stock	(33,029)	(33,042)
Dividends paid to noncontrolling interests	(2,072)	(600)
Contributions from noncontrolling interests	7,985	660
Common stock issued - options	725	1,330
Other financing activities, net	(2,708)	—
Net cash provided by financing activities	39,435	30,409
Effect of exchange rate changes on cash	(5,073)	3,440
Net increase (decrease) in cash and cash equivalents	185	(28,943)
Cash and cash equivalents at beginning of period	121,184	124,238
Cash and cash equivalents at end of period	$121,369	$95,295

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				49,158		2,389	51,547
Cash dividends declared:							
Common @ $0.41 per share				(33,092)			(33,092)
Noncontrolling interests						(761)	(761)
Translation adjustments, net of deferred income taxes of $(7,473)					53,473	759	54,232
Cash flow hedging instrument adjustments, net of deferred income taxes of $(1,742)					6,688		6,688
Contributions from noncontrolling interests						1,181	1,181
Pension liability adjustments, net of deferred income taxes of $947					(2,236)		(2,236)
Marketable securities unrealized gains, net of deferred income taxes of $2					(3)		(3)
Stock options exercised, 86,022 shares	108		1,206				1,314
Vesting of restricted stock units, net 92,630 shares	151	(910)	985				226
Amortization of unearned portion of stock-based compensation, net of forfeitures			1,874				1,874
Balances, June 30, 2011	$139,773	$(738,016)	$145,363	$2,089,986	$(128,010)	$40,019	$1,549,115

	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 (loss)				(16,658)		359	(16,299)
Cash dividends declared:							
Common @ $0.41 per share				(33,058)			(33,058)
Noncontrolling interests						(2,068)	(2,068)
Translation adjustments, net of deferred income taxes of $2,357					(30,708)	(371)	(31,079)
Cash flow hedging instrument adjustments, net of deferred income taxes of $(895)					2,701		2,701
						8,490	8,490

Contributions from noncontrolling interests							
Pension liability adjustments, net of deferred income taxes of $(1,325)					8,849		8,849
Marketable securities unrealized gains, net of deferred income taxes of $(1)					2		2
Stock options exercised, 38,900 shares	49		661				710
Vesting of restricted stock units and other, net 48,519 shares	92	(561)	584				115
Amortization of unearned portion of stock-based compensation, net of forfeitures			1,308				1,308
Balances, June 30, 2012	$140,055	$(745,205)	$151,619	$1,946,518	$(383,347)	$49,949	$1,159,589

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 six months ended June 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. Management is currently evaluating these changes and believes that it may require additional disclosure, but will not have a material impact on the Company’s consolidated financial statements. These changes become effective for the Company on January 1, 2013 with retrospective application required.

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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 June 30		Six Months Ended June 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 June 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 June 30, 2012 and December 31, 2011, assets held-for-sale of $1.5 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)	June 30 2012	December 31 2011
Trade accounts receivable	$634,981	$636,304
Less: Allowance for doubtful accounts	(19,783)	(17,829)
Trade accounts receivable, net	$615,198	$618,475
Other receivables (a)	$33,014	$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 June 30		Six Months Ended June 30	
(In thousands)	2012	2011	2012	2011
Provision for doubtful accounts related to trade accounts receivable	$3,936	$1,592	$6,863	$3,748

Inventories consist of the following:

(In thousands)	June 30 2012	December 31 2011
Finished goods	$83,754	$78,445
Work-in-process	43,813	34,041
Raw materials and purchased parts	95,894	92,995
Stores and supplies	37,500	36,453
Inventories	$260,961	$241,934

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5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	June 30 2012	December 31 2011
Land	$26,084	$26,729
Land improvements	19,184	17,960
Buildings and improvements	185,185	186,799
Machinery and equipment	2,872,748	2,977,521
Uncompleted construction	71,492	66,719
Gross property, plant and equipment	3,174,693	3,275,728
Less: Accumulated depreciation	(1,966,635)	(2,001,244)
Property, plant and equipment, net	$1,208,058	$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 six months ended June 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)	—	(2,264)	—	(2,264)
Foreign currency translation	(3,864)	(3,175)	—	(7,039)
Balance at June 30, 2012	$408,012	$254,276	$9,310	$671,598

(a) Changes to goodwill relate principally to the allocation of goodwill, in accordance with U.S. GAAP, to components of the Harsco Infrastructure Segment which 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 June 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:

(In thousands)	June 30, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	$181,778	$124,472	$183,576	$119,708
Non-compete agreements	1,349	1,306	1,353	1,301
Patents	6,320	5,154	6,884	5,145
Technology related	29,184	15,822	29,497	14,614
Trade names	18,825	10,017	18,538	8,379
Other	10,645	7,366	10,749	7,949
Total	$248,101	$164,137	$250,597	$157,096

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Amortization expense for intangible assets was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2012	2011	2012	2011
Amortization expense for intangible assets	$4,099	$7,943	$9,407	$15,792

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.

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 June 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 six months ended June 30, 2012, the Company expensed $0.5 million of previously deferred financing costs associated with the multi-year revolving credit facility for banks which 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 June 30, 2012 and December 31, 2011, the Company had $107.6 million and $40.0 million, respectively, of commercial paper outstanding. At June 30, 2012, $13.0 million and $94.6 million of commercial paper outstanding was classified as short-term borrowings and long-term debt, respectively, 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.

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8. Employee Benefit Plans

Defined Benefit Net Periodic Pension Cost	Three Months Ended June 30			
	U. S. Plans		International Plans	
(In thousands)	2012	2011	2012	2011
Defined benefit plans:				
Service cost	$471	$391	$862	$1,144
Interest cost	3,203	3,381	11,062	12,320
Expected return on plan assets	(3,899)	(4,138)	(10,690)	(13,715)
Recognized prior service costs	47	62	96	110
Recognized losses	1,155	749	3,747	2,849
Amortization of transition liability	—	—	—	15
Settlement/curtailment gain	—	—	(366)	—
Defined benefit plans net periodic pension cost	$977	$445	$4,711	$2,723

Defined Benefit Net Periodic Pension Cost	Six Months Ended June 30			
	U. S. Plans		International Plans	
(In thousands)	2012	2011	2012	2011
Defined benefit plans:				
Service cost	$943	$783	$1,926	$2,239
Interest cost	6,411	6,770	22,441	24,303
Expected return on plan assets	(7,806)	(8,285)	(21,735)	(26,248)
Recognized prior service costs	95	124	194	213
Recognized losses	2,313	1,499	7,479	5,627
Amortization of transition liability	—	—	8	29
Settlement/curtailment loss (gain)	—	—	(2,061)	30
Defined benefit plans net periodic pension cost	$1,956	$891	$8,252	$6,193

Company Contributions	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2012	2011	2012	2011
Defined benefit pension plans:				
United States	$2,049	$559	$2,638	$1,007
International	3,559	4,063	22,171	20,917
Multiemployer pension plans	4,479	6,281	7,774	10,100
Defined contribution pension plans	3,485	5,151	8,434	9,859

The Company currently anticipates contributing an additional $3.5 million and $8.0 million for the U.S. and international defined benefit pension plans, respectively, during the remainder of 2012.

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9. Income Taxes

Income tax expense from continuing operations was impacted primarily due to certain losses from continuing operations being generated in jurisdictions where no tax benefit can be recognized for the three and six months ended June 30, 2012 compared with the three and six months ended June 30, 2011. These losses with no tax benefit resulted in income tax expense despite an overall loss from continuing operations for the six months ended June 30, 2012 and impacted 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 June 30, 2012 was $37.0 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.

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 June 30, 2012 and December 31, 2011 include accruals in Other current liabilities of $2.1 million and $2.5 million, respectively, for environmental matters. The amounts charged against pre-tax income related to environmental matters totaled $0.3 million and $0.5 million for the three and six months ended June 30, 2012, respectively. The amounts charged against pre-tax income related to environmental matters totaled $0.6 million and $0.8 million for the three and six months ended June 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 June 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 $28 million. Any increase in the aggregate amount since the Company's last Annual Report on Form 10-K is due to an increase in assessed interest and statutorily mandated legal fees for the quarter. 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.

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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.

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. 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 June 30, 2012, there are 18,626 pending asbestos personal injury claims filed against the Company. Of these cases, 18,126 are pending in the New York Supreme Court for New York County in New York State. The other claims, totaling 500, are filed in various counties in a number of state courts, and in certain Federal District Courts (including New York), and those complaints generally assert lesser amounts of damages than the New York State court cases or do not state any amount claimed.

As of June 30, 2012, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in 26,128 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 June 30, 2012, the Company has been listed as a defendant in 804 Active or In Extremis asbestos cases in New York County. The Court's Order has been challenged by some plaintiffs.

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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.

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 June 30		Six Months Ended June 30	
(In thousands, except per share amounts)	2012	2011	2012	2011
Income (loss) from continuing operations attributable to Harsco Corporation common stockholders	$13,033	$38,185	$(15,930)	$50,441
Weighted-average shares outstanding - basic	80,631	80,749	80,605	80,722
Dilutive effect of stock-based compensation	251	261	—	255
Weighted-average shares outstanding - diluted	80,882	81,010	80,605	80,977
Earnings (loss) from continuing operations per common share, attributable to Harsco Corporation common stockholders:				
Basic	$0.16	$0.47	$(0.20)	$0.62
Diluted	$0.16	$0.47	$(0.20)	$0.62

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

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2012	2011	2012	2011
Restricted stock units	—	—	101	—
Stock options	372	—	428	—
Stock appreciation rights	318	—	300	—
Other	—	—	178	—

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 June 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 June 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
June 30, 2012				
Derivatives designated as hedging instruments:				
Cross currency interest rate swaps	Other assets	55,367	Noncurrent liabilities	—
Total derivatives designated as hedging instruments		$55,367		$—
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	$1,241	Other current liabilities	$1,260

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(In thousands)	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives 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	Noncurrent liabilities	1,792
Total derivatives designated as hedging instruments		$44,910		$1,792
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	$2,912	Other current liabilities	$1,207

The effect of derivative instruments on the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011 was as follows:

Derivatives Designated as Hedging Instruments

(In thousands)	Amount of Gain (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivative - Effective Portion	Location of Gain (Loss) Reclassified from Accumulated OCI into Income - Effective Portion	Amount of Gain (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 June 30, 2012:						
Foreign currency forward exchange contracts	$ 179	Cost of services and products sold	$ 222		$ —	
Cross-currency interest rate swaps	2,440		—	Cost of services and products sold	19,992	(a)
	$ 2,619		$ 222		$ 19,992	
For the three months ended June 30, 2011:						
Foreign currency forward exchange contracts	$ (172)		$ —		$ —	
Cross-currency interest rate swaps	1,308		—	Cost of services and products sold	(4,676)	(a)
	$ 1,136		$ —		$ (4,676)	

(a) These gains (losses) offset foreign currency fluctuation effects on the debt principal.

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(In thousands)	Amount of Gain (Loss) Recognized in Other Comprehensive Income (“OCI”) on Derivative - Effective Portion	Location of Gain (Loss) Reclassified from Accumulated OCI into Income - Effective Portion	Amount of Gain (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 six months ended June 30, 2012:						
Foreign currency forward exchange contracts	$ (183)	Cost of services and products sold	$ 256		$ —	
Cross-currency interest rate swaps	3,779		—	Cost of services and products sold	8,745	(a)
	$ 3,596		$ 256		$ 8,745	
For the six months ended June 30, 2011:						
Foreign currency forward exchange contracts	$ (699)		$ —		$ —	
Cross-currency interest rate swaps	9,129		—	Cost of services and products sold	(23,457)	(a)
	$ 8,430		$ —		$ (23,457)	

(a) These gains (losses) offset foreign currency fluctuation effects on the debt principal.

Derivatives Not Designated as Hedging Instruments

(In thousands)	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative for the Three Months Ended June 30 (a) 2012	2011
Foreign currency forward exchange contracts	Cost of services and products sold	$ 7,199	$ (1,956)

(a) These gains (losses) offset amounts recognized in cost of services and products sold principally as a result of intercompany or third party foreign currency exposures.

(In thousands)	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative for the Six Months Ended June 30 (a) 2012	2011
Foreign currency forward exchange contracts	Cost of services and products sold	$ 2,505	$ (7,077)

(a) These gains (losses) offset amounts recognized in cost of services and products sold principally as a result of intercompany or third party foreign currency exposures.

Foreign Currency Forward Exchange Contracts

The Company conducts business in multiple currencies and, accordingly, is subject to the inherent risks associated with foreign exchange rate movements. The financial position and results of operations of substantially all of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Foreign currency-denominated assets and liabilities are translated into U.S. dollars at the exchange rates existing at the respective balance sheet dates, and income and expense items are translated at the average exchange rates during the respective periods. The aggregate effects of translating the balance sheets of these subsidiaries are deferred and recorded in Accumulated other comprehensive loss, which is a separate component of equity.
The Company uses derivative instruments to hedge cash flows related to foreign currency fluctuations. At June 30, 2012 and December 31, 2011, the Company had $346.4 million and $324.5 million of contracted amounts, respectively, of foreign currency forward exchange contracts outstanding. These contracts are part of a worldwide program to minimize foreign

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currency exchange operating income and balance sheet exposure by offsetting foreign currency exposures of certain future payments between the Company and its various subsidiaries, suppliers or customers. The unsecured contracts outstanding at June 30, 2012 mature at various times within six months and are with major financial institutions. The Company may be exposed to credit loss in the event of non-performance by the contract counterparties. The Company evaluates the creditworthiness of the counterparties and does not expect default by them. Foreign currency forward exchange contracts are used to hedge commitments, such as foreign currency debt, firm purchase commitments and foreign currency cash flows for certain export sales transactions.

The following tables summarize, by major currency, the contractual amounts of the Company's foreign currency forward exchange contracts in U.S. dollars at June 30, 2012 and December 31, 2011. The "Buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the "Sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies. The recognized gains and losses offset amounts recognized in cost of services and products sold principally as a result of intercompany or third party foreign currency exposures.

June 30, 2012

(In thousands)	Type	U.S. Dollar Equivalent	Maturity	Recognized Gain (Loss)
British pounds sterling	Sell	$3,577	July 2012	$20
British pounds sterling	Buy	2,215	July 2012	(7)
Euros	Sell	194,376	July 2012 through December 2012	879
Euros	Buy	106,313	July 2012 through August 2012	(801)
Other currencies	Sell	2,558	July 2012 through September 2012	7
Other currencies	Buy	37,361	July 2012 through August 2012	(117)
Total		$346,400		$(19)

December 31, 2011

(In thousands)	Type	U.S. Dollar Equivalent	Maturity	Recognized Gain (Loss)
British pounds sterling	Sell	$18,350	January 2012	$(20)
British pounds sterling	Buy	4,364	January 2012	(12)
Euros	Sell	178,889	January 2012 through October 2012	2,345
Euros	Buy	105,247	January 2012 through April 2012	(878)
Other currencies	Sell	2,957	January 2012 through March 2012	62
Other currencies	Buy	14,656	January 2012	235
Total		$324,463		$1,732

In addition to foreign currency forward exchange contracts, the Company designates certain loans as hedges of net investments in foreign subsidiaries. The Company recorded pre-tax net gains of $2.5 million and $6.9 million during the three and six months ended June 30, 2012, respectively, and pre-tax net losses of $2.3 million and $9.2 million during the three and six months ended June 30, 2011, respectively, into Accumulated other comprehensive loss, which is a separate component of stockholders' equity.

Cross-Currency Interest Rate Swaps

The Company uses cross-currency interest rate swaps in conjunction with certain debt issuances in order to secure a fixed local currency interest rate. Under these cross-currency interest rate swaps, the Company receives interest based on a fixed or floating U.S. dollar rate and pays interest on a fixed local currency rate based on the contractual amounts in dollars and the local currency, respectively. The cross-currency interest rate swaps are recorded on the Condensed Consolidated Balance Sheets at fair value, with changes in value attributed to the effect of the swaps' interest spread recorded in Accumulated other comprehensive loss, which is a separate component of equity. Changes in value attributed to the effect of foreign currency fluctuations are recorded in the income statement and offset currency fluctuation effects on the debt principal.

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Cross-Currency Interest Rate Swaps

		Interest Rates	
(In millions)	Contractual Amount	Receive	Pay
Maturing 2018	$ 250.0	Fixed U.S. dollar rate	Fixed euro rate
Maturing 2020	220.0	Fixed U.S. dollar rate	Fixed British pound sterling rate
Maturing 2013	1.8	Floating U.S. dollar rate	Fixed Indian rupee rate

Fair Value of Derivative Assets and Liabilities and Other Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Company utilizes market data or assumptions that the Company believes market participants would use in valuing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3—Inputs that are both significant to the fair value measurement and unobservable.

In instances in which multiple levels of inputs are used to measure fair value, hierarchy classification is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

At June 30, 2012 and December 31, 2011, all derivative assets and liabilities were valued at Level 2 of the fair value hierarchy. The following table indicates the different financial instruments of the Company at June 30, 2012 and December 31, 2011:

Level 2 Fair Value Measurements

(In thousands)	June 30 2012	December 31 2011
Assets		
Foreign currency forward exchange contracts	$1,241	$3,186
Cross-currency interest rate swaps	55,367	44,636
Liabilities		
Foreign currency forward exchange contracts	1,260	1,207
Cross-currency interest rate swaps	—	1,792

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The following table reconciles the beginning and ending balances for liabilities measured on a recurring basis using unobservable inputs (Level 3) for the three and six months ended June 30:

(In thousands)	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Balance at beginning of period	$—	$—	$—	$3,872
Fair value adjustments included in earnings	—	—	—	(3,966)
Effect of exchange rate changes	—	—	—	94
Balance at end of period	$—	$—	$—	$—

The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs, such as forward rates, interest rates, the Company's credit risk and counterparties' credit risks, and which minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the ability to observe those inputs. Commodity derivatives, foreign currency forward exchange contracts and cross-currency interest rate swaps are classified as Level 2 fair value based upon pricing models using market-based inputs. Model inputs can be verified, and valuation techniques do not involve significant management judgment.
The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and short-term borrowings approximate fair value due to the short-term maturities of these assets and liabilities. At June 30, 2012 and December 31, 2011, the total fair value of long-term debt, including current maturities, was $1.0 billion and $935.1 million, respectively, compared to carrying value of $951.8 million and $857.4 million, respectively. Fair values for debt are based on quoted market prices (Level 1) for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

13. Review of Operations by Segment

(In thousands)	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Revenues From Continuing Operations				
Harsco Metals & Minerals	$364,923	$423,789	$724,874	$815,526
Harsco Infrastructure	234,570	298,334	472,542	559,901
Harsco Rail	79,627	77,945	147,675	140,547
Harsco Industrial	91,455	75,023	177,819	138,172
Total revenues from continuing operations	$770,575	$875,091	$1,522,910	$1,654,146
Operating Income (Loss) From Continuing Operations				
Harsco Metals & Minerals	$31,001	$35,252	$53,312	$63,857
Harsco Infrastructure	(24,349)	(5,088)	(77,891)	(22,579)
Harsco Rail	12,035	22,520	21,366	30,643
Harsco Industrial	16,955	13,044	30,953	23,718
Corporate	(1,003)	(1,295)	(5,788)	(2,170)
Total operating income from continuing operations	$34,639	$64,433	$21,952	$93,469

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Reconciliation of Segment Operating Income to Income (Loss) From Continuing Operations Before Income Taxes and Equity Income

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2012	2011	2012	2011
Segment operating income	$35,642	$65,728	$27,740	$95,639
General corporate	(1,003)	(1,295)	(5,788)	(2,170)
Operating income from continuing operations	34,639	64,433	21,952	93,469
Interest income	882	619	1,556	1,339
Interest expense	(11,608)	(12,644)	(24,432)	(24,579)
Income (loss) from continuing operations before income taxes and equity income	$23,913	$52,408	$(924)	$70,229

14. Other Expenses

This income statement classification includes restructuring costs for employee termination benefit costs, product rationalization and costs to exit activities; former CEO separation costs; net gains on the disposal of non-core assets; currency translation adjustments recognized in earnings; and business combination accounting adjustments for contingent consideration related to acquisitions by the Company.

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2012	2011	2012	2011
Restructuring costs (see Note 15)	$29,660	$2,422	$65,109	$7,258
Former CEO separation costs	—	—	4,125	—
Net gains from disposal of non-core assets	(821)	(1,758)	(1,222)	(2,814)
Currency translation adjustments recognized in earnings	(6,754)	—	(6,754)	—
Contingent consideration adjustments	—	—	—	(3,966)
Other	791	246	1,710	903
Other expenses	$22,876	$910	$62,968	$1,381

15. Restructuring Programs

The Company instituted restructuring programs in 2010 and 2011 as detailed below. The overall objective of the programs is to balance short-term profitability goals with long-term strategies to establish platforms upon which the affected businesses can grow with reduced fixed investment and generate annual operating expense savings. The programs have been instituted in response to the continuing impact of global financial and economic uncertainty on the Company’s end markets, particularly in the Company’s Harsco Infrastructure Segment.

Within the Harsco Infrastructure Segment, these restructuring programs are part of an ongoing transformation strategy to improve organizational efficiency and enhance profitability and stockholder value. The strategy includes optimizing the Segment as a more streamlined, efficient, cost-effective, disciplined and market-focused global platform.

2011/2012 Restructuring Program

Under the 2011/2012 Restructuring Program, the Company is optimizing rental assets and sale inventories by removing non-core assets under an expanded product rationalization and branch structure reduction program undertaken in its Harsco Infrastructure Segment; optimizing office structures in the Harsco Infrastructure and Harsco Metals & Minerals Segments; and reducing the global workforce in the Harsco Infrastructure and Harsco Metals & Minerals Segments. As previously disclosed in the Company’s Annual Report on Form 10-K for the Year Ended December 31, 2011, the Company incurred approximately $101 million in pre-tax charges under this program in 2011.

Additional charges of approximately $33 million are expected to be incurred in the second half of 2012. Benefits under this program, in the form of reduced costs, are expected to be over $36 million in 2012 and more than $65 million when fully annualized in 2013.

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The restructuring accrual for the 2011/2012 Restructuring Program at June 30, 2012 and the activity for the six months then ended are as follows:

(In thousands)	Accrual December 31 2011	Additional Expenses Incurred (a)	Non-Cash Charges / Adjustments	Net Cash Expenditures	Foreign Currency Translation	Remaining Accrual June 30 2012
Harsco Infrastructure Segment						
Employee termination benefit costs	$ 14,500	$12,863	$ (326)	$ (17,848)	$(10)	$9,179
Cost to exit activities	2,833	35,958	732	(29,784)	(97)	9,642
Total Harsco Infrastructure Segment (b)	17,333	48,821	406	(47,632)	(107)	18,821
Harsco Metals & Minerals Segment						
Employee termination benefit costs	12,737	707	—	(5,493)	(276)	7,675
Harsco Rail Segment						
Employee termination benefit costs	50	67	—	(100)	—	17
Harsco Corporate						
Employee termination benefit costs	351	341	—	(625)	—	67
Total	$ 30,471	$49,936	$ 406	$ (53,850)	$(383)	$26,580

(a) Includes principally the recognition of additional expenses due to timing considerations under U.S. GAAP, as well as adjustments to previously recorded restructuring charges resulting from changes in facts and circumstances in the implementation of these activities.

(b) The table does not include $15.2 million of non-cash product rationalization expense or $14.5 million of proceeds from asset sales under the 2011/2012 Restructuring Program for this Segment as these items did not impact the restructuring accrual during the six months ended June 30, 2012.

Cash expenditures related to the remaining accrual at June 30, 2012 are expected to be paid principally throughout the remainder of 2012 with certain exit activity costs for lease terminations expected to be paid over the remaining life of the leases.

Fourth Quarter 2010 Harsco Infrastructure Program

Under the Fourth Quarter 2010 Harsco Infrastructure Program, the Harsco Infrastructure Segment reduced its branch structure; consolidated and/or closed administrative office locations; reduced its global workforce; and rationalized its product lines.

The restructuring accrual for the Fourth Quarter 2010 Harsco Infrastructure Program at June 30, 2012 and the activity for the six months then ended are as follows:

(In thousands)	Accrual December 31 2011	Adjustments to Previously Recorded Restructuring Charges (a)	Cash Expenditures	Foreign Currency Translation	Remaining Accrual June 30 2012
Harsco Infrastructure Segment					
Cost to exit activities	$11,929	$(892)	$(1,646)	$(122)	$9,269
Employee termination benefit costs	211	(147)	(61)	(3)	—
Other	7	(5)	—	(2)	—
Total	$12,147	$(1,044)	$(1,707)	$(127)	$9,269

(a) Adjustments to previously recorded restructuring charges resulted from changes in facts and circumstances in the implementation of these activities.

Approximately one-fourth of the remaining accrual at June 30, 2012 related to this program is expected to be paid throughout 2012. Approximately $6.3 million related to payment of multiemployer pension plan withdrawal liabilities is expected to be paid through 2023 under contractual payment terms with the related plan administrators. Certain exit activity costs for lease terminations are expected to be paid over the remaining life of the leases.

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Prior Restructuring Programs

Other restructuring actions were undertaken in 2010, in addition to the Fourth Quarter 2010 Harsco Infrastructure Program described above, to reduce the Company's cost structure.

The restructuring accrual for those prior restructuring programs at June 30, 2012 and the activity for the six months then ended are as follows:

(In thousands)	Accrual December 31 2011	Cash Expenditures	Foreign Currency Translation	Remaining Accrual June 30 2012
Harsco Metals & Minerals Segment				
Employee termination benefit costs	$1,280	$(55)	$(15)	$1,210
Cost to exit activities	727	(62)	—	665
Total	$2,007	$(117)	$(15)	$1,875

The majority of the remaining cash expenditures of $1.9 million related to these actions are expected to be paid throughout 2012 and 2013.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements as well as the Company’s 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, which includes additional information about the Company’s critical accounting policies, contractual obligations, practices and the transactions that support the financial results, and provides a more comprehensive summary of the Company’s outlook, trends and strategies for 2012 and beyond.

Certain amounts included in Item 2 of this Quarterly Report on Form 10-Q are rounded in millions and all percentages are calculated based on actual amounts. As a result, minor differences may exist due to rounding.

Forward-Looking Statements

The nature of the Company’s business and the many countries in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In accordance with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors that, among others, could cause future results to differ materially from the results contemplated by forward-looking statements, including the expectations and assumptions expressed or implied herein. Forward-looking statements contained herein could include, among other things, statements about the Company’s management’s confidence and strategies for performance; expectations for new and existing products, technologies and opportunities; and expectations regarding growth, sales, cash flows, earnings and Economic Value Added (“EVA®”). These statements can be identified by the use of such terms as “may,” “could,” “expect,” “anticipate,” “inte “believe” or other comparable terms.

Factors that could cause actual results to differ, perhaps materially, from those implied by the forward-looking statements include, but are not limited to: (1) changes in the worldwide business environment in which the Company operates, including general economic conditions; (2) changes in currency exchange rates, interest rates, commodity and fuel costs and capital costs; (3) changes in the performance of stock and bond markets that could affect, among other things, the valuation of the assets in the Company’s pension plans and the accounting for pension assets, liabilities and expenses; (4) changes in governmental laws and regulations, including environmental, tax and import tariff standards; (5) market and competitive changes, including pricing pressures, market demand and acceptance for new products, services and technologies; (6) unforeseen business disruptions in one or more of the many countries in which the Company operates due to political instability, civil disobedience, armed hostilities, public health issues or other calamities; (7) the seasonal nature of the Company’s business; (8) the Company’s ability to successfully enter into new contracts and complete new acquisitions or strategic ventures in the timeframe contemplated, or at all; (9) the integration of the Company’s strategic acquisitions; (10) the amount and timing of repurchases of the Company’s common stock, if any; (11) ongoing global financial and credit crises and economic conditions generally, which could result in the Company’s customers curtailing development projects, construction, production and capital expenditures, which, in turn, could reduce the demand for the Company’s products and services and, accordingly, the Company’s revenues, margins and profitability; (12) the outcome of any disputes with customers; (13) the financial condition of the Company’s customers, including the ability of customers (especially those that may be highly leveraged and those with inadequate liquidity) to maintain their credit availability; (14) the Company’s ability to successfully implement and receive the expected benefits of cost-reduction and restructuring initiatives, including the achievement of expected cost savings in the expected time frame; (15) risk and uncertainty associated with intangible assets; and (16) other risk factors listed from time to time in the Company’s SEC reports. A further discussion of these, along with other potential risk factors, can be found in Part I, Item 1A, “Risk Factors,” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. The Company cautions that these factors may not be exhaustive and that many of these factors are beyond the Company’s ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty to update forward-looking statements except as may be required by law.

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Executive Overview

Revenues by Segment (In millions)	Three Months Ended June 30 2012	2011	Change	%
Harsco Metals & Minerals	364.9	423.8	$(58.9)	(13.9)%
Harsco Infrastructure	234.6	298.3	(63.8)	(21.4)
Harsco Rail	79.6	77.9	1.7	2.2
Harsco Industrial	91.5	75.0	16.4	21.9
Total revenues	$770.6	$875.1	$(104.5)	(11.9)%

Revenues by Segment (In millions)	Six Months Ended June 30 2012	2011	Change	%
Harsco Metals & Minerals	724.9	815.5	$(90.7)	(11.1)%
Harsco Infrastructure	472.5	559.9	(87.4)	(15.6)
Harsco Rail	147.7	140.5	7.1	5.1
Harsco Industrial	177.8	138.2	39.6	28.7
Total revenues	$1,522.9	$1,654.1	$(131.2)	(7.9)%

Revenues by Region (In millions)	Three Months Ended June 30 2012	2011	Change	%
Western Europe	$268.9	$337.7	$(68.8)	(20.4)%
North America	307.1	302.7	4.4	1.4
Latin America (a)	80.7	89.4	(8.7)	(9.7)
Middle East and Africa	40.2	55.6	(15.4)	(27.7)
Asia-Pacific	48.8	48.4	0.4	0.7
Eastern Europe	24.9	41.3	(16.4)	(39.6)
Total revenues	$770.6	$875.1	$(104.5)	(11.9)%

(a) Includes Mexico.

Revenues by Region (In millions)	Six Months Ended June 30 2012	2011	Change	%
Western Europe	$547.5	$645.8	$(98.3)	(15.2)%
North America	580.1	567.1	13.0	2.3
Latin America (a)	167.8	170.9	(3.1)	(1.8)
Middle East and Africa	77.7	106.5	(28.8)	(27.0)
Asia-Pacific	98.0	93.6	4.4	4.7
Eastern Europe	51.9	70.2	(18.3)	(26.1)
Total revenues	$1,522.9	$1,654.1	$(131.2)	(7.9)%

(a) Includes Mexico.

Revenues for the Company during the second quarter and first half of 2012 were $770.6 million and $1.5 billion, respectively, compared with $875.1 million and $1.7 billion, respectively, in the second quarter and first half of 2011. Foreign currency translation decreased revenues by $60.1 million and $74.3 million, respectively, for the second quarter and first half of 2012 in comparison with the second quarter and first half of 2011. Revenues from emerging markets (those outside North America and Western Europe) were approximately 26% in the first half of 2012 compared with 27% in first half of 2011.

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Operating Income (Loss) by Segment (In millions)	Three Months Ended June 30 2012	2011	Change	%
Harsco Metals & Minerals	$31.0	$35.3	$(4.3)	(12.1)%
Harsco Infrastructure	(24.3)	(5.1)	(19.3)	(378.6)
Harsco Rail	12.0	22.5	(10.5)	(46.6)
Harsco Industrial	17.0	13.0	3.9	30.0
Corporate	(1.0)	(1.3)	0.3	22.5
Total operating income	$34.6	$64.4	$(29.8)	(46.2)%

Operating Income (Loss) by Segment (In millions)	Six Months Ended June 30 2012	2011	Change	%
Harsco Metals & Minerals	$53.3	$63.9	$(10.5)	(16.5)%
Harsco Infrastructure	(77.9)	(22.6)	(55.3)	(244.9)
Harsco Rail	21.4	30.6	(9.3)	(30.3)
Harsco Industrial	31.0	23.7	7.2	30.5
Corporate	(5.8)	(2.2)	(3.6)	(166.7)
Total operating income	$22.0	$93.5	$(71.5)	(76.5)%

Operating Margin by Segment	Three Months Ended June 30 2012	2011	Six Months Ended June 30 2012	2011
Harsco Metals & Minerals	8.5%	8.3%	7.4%	7.8%
Harsco Infrastructure	(10.4)	(1.7)	(16.5)	(4.0)
Harsco Rail	15.1	28.9	14.5	21.8
Harsco Industrial	18.5	17.4	17.4	17.2
Consolidated operating margin	4.5%	7.4%	1.4%	5.7%

The Operating income from continuing operations for the second quarter and first half of 2012 was $34.6 million and $22.0 million, respectively, compared with operating income from continuing operations of $64.4 million and $93.5 million, respectively, in the second quarter and first half of 2011. This decrease was principally driven by $29.6 million and $65.1 million, respectively of pre-tax restructuring charges associated with the 2011/2012 Restructuring Program in the second quarter and first half of 2012. Diluted earnings per share from continuing operations for the second quarter of 2012 were $0.16 and diluted loss per share from continuing operations for the first half of 2012 were $0.20, compared with diluted earnings per share from continuing operations of $0.47 and $0.62, respectively for the second quarter and first half of 2011.

Benefits realized under the 2011/2012 Restructuring Program had a positive pre-tax effect on operating income of approximately $20 million in the first half of 2012. Under the 2011/2012 Restructuring Program, the Company expects to realize reduced costs of approximately $36 million in 2012 and $65 million on an annualized basis in 2013. These estimates have not changed from prior reported estimates. Savings under the Company’s Fourth Quarter 2010 Harsco Infrastructure Program have previously been estimated at $60 million per year and the Company expects to realize that amount in 2012 from the 2010 actions.

The Company continues to have sufficient available liquidity and has been able to obtain all necessary financing. The Company currently expects operational and business needs to be met with cash from operations and commercial paper borrowings for 2012. The need to supplement cash from operations with commercial paper borrowings for the remainder of 2012 is due to cash payments related to the Company's previously announced restructuring actions. See Liquidity and Capital Resources under Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further discussion on cash flows.

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Harsco Metals & Minerals Segment:

Significant Impacts on Revenues (In millions)	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Revenues — 2011	$423.8	$815.5
Net decreased volume	(23.0)	(46.1)
Impact of foreign currency translation	(35.9)	(44.5)
Revenues — 2012	$364.9	$724.9

Significant Impacts on Operating Income:

- Lower global steel production and demand. Overall, steel production by customers under services contracts was down 7% in the second quarter of 2012 compared to the same period in the prior year.
- Results for the second quarter and first half of 2012 reflect the impact of the Company's decision to exit lower-margin contracts.
- These impacts were partially offset by improved results from this Segment’s roofing granules and abrasives business and overall cost reductions from the 2011/2012 Restructuring Program.
- Foreign currency translation decreased operating income for this Segment by approximately $4 million for both the second quarter and first half of 2012 compared with the same periods in the prior year.

Harsco Infrastructure Segment: