HARSCO CORP
Form 10-Q
August 02, 2018
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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, 2018
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth 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
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 31, 2018
Common stock, par value $1.25 per share	80,846,067

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	June 30 2018	December 31 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$64,422	$62,098
Restricted cash	2,665	4,111
Trade accounts receivable, net	295,390	288,034
Other receivables	27,349	20,224
Inventories	130,871	178,293
Current portion of contract assets	18,798	—
Other current assets	44,562	39,332
Total current assets	584,057	592,092
Property, plant and equipment, net	461,906	479,747
Goodwill	413,837	401,758
Intangible assets, net	86,265	38,251
Contract assets	3,566	—
Deferred income tax assets	42,387	51,574
Other assets	19,394	15,263
Total assets	$1,611,412	$1,578,685
LIABILITIES		
Current liabilities:		
Short-term borrowings	$5,349	$8,621
Current maturities of long-term debt	8,218	11,208
Accounts payable	137,491	126,249
Accrued compensation	43,133	60,451
Income taxes payable	5,707	5,106
Insurance liabilities	11,272	11,167
Current portion of advances on contracts	39,559	117,958
Other current liabilities	130,577	133,368
Total current liabilities	381,306	474,128
Long-term debt	652,431	566,794
Insurance liabilities	21,145	22,385
Retirement plan liabilities	228,063	259,367
Advances on contracts	13,493	—
Other liabilities	48,821	40,846
Total liabilities	1,345,259	1,363,520
COMMITMENTS AND CONTINGENCIES		
HARSCO CORPORATION STOCKHOLDERS' EQUITY		
Preferred stock	—	—
Common stock	141,812	141,110
Additional paid-in capital	185,512	180,201
Accumulated other comprehensive loss	(557,889)	(546,582)
Retained earnings	1,219,992	1,157,801

Treasury stock	(765,695)	(762,079)
Total Harsco Corporation stockholders’ equity	223,732	170,451
Noncontrolling interests	42,421	44,714
Total equity	266,153	215,165
Total liabilities and equity	$1,611,412	$1,578,685

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands, except per share amounts)	2018	2017	2018	2017
Revenues from continuing operations:				
Service revenues	$257,963	$251,306	$512,925	$491,915
Product revenues	174,009	143,592	327,085	275,524
Total revenues	431,972	394,898	840,010	767,439
Costs and expenses from continuing operations:				
Cost of services sold	195,906	193,235	395,279	382,717
Cost of products sold	122,976	100,728	234,956	199,518
Selling, general and administrative expenses	58,927	54,385	116,010	108,322
Research and development expenses	1,418	1,329	2,657	2,160
Other (income) expenses, net	(880)	2,072	942	2,966
Total costs and expenses	378,347	351,749	749,844	695,683
Operating income from continuing operations	53,625	43,149	90,166	71,756
Interest income	577	493	1,075	1,005
Interest expense	(9,993)	(12,405)	(19,576)	(24,058)
Defined benefit pension income (expense)	904	(675)	1,743	(1,374)
Loss on early extinguishment of debt	(1,034)	—	(1,034)	—
Income from continuing operations before income taxes	44,079	30,562	72,374	47,329
Income tax expense	(1,944)	(11,234)	(10,210)	(17,487)
Income from continuing operations	42,135	19,328	62,164	29,842
Discontinued operations:				
Income on disposal of discontinued business	739	628	159	40
Income tax expense related to discontinued business	(163)	(225)	(35)	(14)
Income from discontinued operations	576	403	124	26
Net income	42,711	19,731	62,288	29,868
Less: Net income attributable to noncontrolling interests	(2,222)	(693)	(3,991)	(1,940)
Net income attributable to Harsco Corporation	$40,489	$19,038	$58,297	$27,928
Amounts attributable to Harsco Corporation common stockholders:				
Income from continuing operations, net of tax	$39,913	$18,635	$58,173	$27,902
Income from discontinued operations, net of tax	576	403	124	26
Net income attributable to Harsco Corporation common stockholders	$40,489	$19,038	$58,297	$27,928
Weighted-average shares of common stock outstanding	80,861	80,535	80,756	80,460
Basic earnings per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	$0.49	$0.23	$0.72	$0.35
Discontinued operations	0.01	0.01	—	—
Basic earnings per share attributable to Harsco Corporation common stockholders	$0.50	$0.24	$0.72	$0.35
Diluted weighted-average shares of common stock outstanding	83,643	82,850	83,594	82,558
Diluted earnings per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	$0.48	$0.22	$0.70	$0.34
Discontinued operations	0.01	—	—	—
Diluted earnings per share attributable to Harsco Corporation common stockholders	$0.48 (a)	$0.23 (a)	$0.70	$0.34

(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 (Unaudited)

	Three Months Ended June 30	
(In thousands)	2018	2017
Net income	$42,711	$19,731
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of $(2,579) and $1,458 in 2018 and 2017, respectively	(48,706)	9,825
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of $(1,046) and $611 in 2018 and 2017, respectively	2,902	(341)
Pension liability adjustments, net of deferred income taxes of $(288) and $(522) in 2018 and 2017, respectively	28,627	(10,348)
Unrealized loss on marketable securities, net of deferred income taxes of $4 and $- in 2018 and 2017, respectively	(13)	—
Total other comprehensive loss	(17,190)	(864)
Total comprehensive income	25,521	18,867
Less: Comprehensive (income) loss attributable to noncontrolling interests	296	(1,841)
Comprehensive income attributable to Harsco Corporation	$25,817	$17,026

	Six Months Ended June 30	
(In thousands)	2018	2017
Net income	$62,288	$29,868
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of $(952) and $1,851 in 2018 and 2017, respectively	(36,205)	26,386
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of $(1,885) and $867 in 2018 and 2017, respectively	5,579	(728)
Pension liability adjustments, net of deferred income taxes of $(613) and $(1,044) in 2018 and 2017, respectively	19,626	(9,143)
Unrealized gain (loss) on marketable securities, net of deferred income taxes of $8 and $(3) in 2018 and 2017, respectively	(27)	6
Total other comprehensive income (loss)	(11,027)	16,521
Total comprehensive income	51,261	46,389
Less: Comprehensive income attributable to noncontrolling interests	(2,751)	(3,474)
Comprehensive income attributable to Harsco Corporation	$48,510	$42,915

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 2018	2017
Cash flows from operating activities:		
Net income	$62,288	$29,868
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	62,005	60,495
Amortization	4,566	4,008
Deferred income tax expense	340	3,433
Dividends from unconsolidated entities	—	19
Other, net	3,037	5,708
Changes in assets and liabilities:		
Accounts receivable	(21,445)	(42,806)
Inventories	(11,175)	(6,296)
Contract assets	(1,393)	—
Accounts payable	7,359	4,259
Accrued interest payable	(58)	166
Accrued compensation	(16,045)	(4,365)
Advances on contracts	(13,116)	(1,479)
Retirement plan liabilities, net	(18,330)	(11,221)
Other assets and liabilities	(11,334)	4,990
Net cash provided by operating activities	46,699	46,779
Cash flows from investing activities:		
Purchases of property, plant and equipment	(56,496)	(40,700)
Purchases of businesses, net of cash acquired	(56,389)	—
Proceeds from sales of assets	3,153	1,534
Net proceeds (payments) from settlement of foreign currency forward exchange contracts	(2,942)	4,170
Net cash used by investing activities	(112,674)	(34,996)
Cash flows from financing activities:		
Short-term borrowings, net	(2,977)	2,302
Current maturities and long-term debt:		
Additions	124,858	24,000
Reductions	(43,193)	(46,712)
Dividends paid to noncontrolling interests	(4,609)	(1,769)
Sale of noncontrolling interests	477	—
Stock-based compensation - Employee taxes paid	(3,614)	(1,326)
Deferred financing costs	(354)	(42)
Other financing activities, net	—	(368)
Net cash provided (used) by financing activities	70,588	(23,915)
Effect of exchange rate changes on cash and cash equivalents, including restricted cash	(3,735)	3,029
Net increase (decrease) in cash and cash equivalents, including restricted cash	878	(9,103)
Cash and cash equivalents, including restricted cash, at beginning of period	66,209	71,879
Cash and cash equivalents, including restricted cash, at end of period	$67,087	$62,776

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 amounts)	Issued	Treasury	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balances, January 1, 2017	$140,625	$(760,391)	$172,101	$1,150,688	$(606,722)	$41,262	$137,563
Adoption of new accounting standards (See Note 2)			1,106	(709)			397
Net income				27,928		1,940	29,868
Cash dividends declared:							
Noncontrolling interests						(1,769)	(1,769)
Total other comprehensive income, net of deferred income taxes of $1,671					14,987	1,534	16,521
Stock Appreciation Rights exercise, net 7,441 shares	13	(49)	(13)				(49)
Vesting of restricted stock units and other stock grants, net 236,335 shares	401	(1,277)	(401)				(1,277)
Amortization of unearned portion of stock-based compensation, net of forfeitures			5,642				5,642
Balances, June 30, 2017	$141,039	$(761,717)	$178,435	$1,177,907	$(591,735)	$42,967	$186,896

	Harsco Corporation Stockholders' Equity						
	Common Stock						
(In thousands)	Issued	Treasury	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balances, January 1, 2018	$141,110	$(762,079)	$180,201	$1,157,801	$(546,582)	$44,714	$215,165
Adoption of new accounting standards (See Note 2)				3,894	(1,520)		2,374
Net income				58,297		3,991	62,288
Cash dividends declared:						(5,521)	(5,521)
Sale of subsidiary shares to noncontrolling interest						477	477
Total other comprehensive income, net of deferred income taxes of $(3,442)					(9,787)	(1,240)	(11,027)
Stock Appreciation Rights exercised, net 22,584 shares	39	(201)	(39)				(201)
Vesting of restricted stock units and other stock grants, net 369,498 shares	663	(3,415)	(663)				(3,415)
Amortization of unearned portion of stock-based compensation, net of			6,013				6,013

forfeitures							
Balances, June 30, 2018	$141,812	$(765,695)	$185,512	$1,219,992	$(557,889)	$42,421	$266,153

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 in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosure required by U.S. GAAP for annual financial statements. The December 31, 2017 Condensed Consolidated Balance Sheet information contained in this Quarterly Report on Form 10-Q was derived from the 2017 audited consolidated financial statements. 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, 2017. In the opinion of management, all adjustments (all of which are of a normal recurring nature) that are necessary for a fair statement are reflected in the unaudited condensed consolidated financial statements.
Operating results and cash flows for the three and six months ended June 30, 2018 are not indicative of the results that may be expected for the year ending December 31, 2018.
Reclassifications
Certain reclassifications have been made to prior year amounts to conform with current year classifications.

2. Recently Adopted and Recently Issued Accounting Standards

The following accounting standards have been adopted in 2018:
On January 1, 2018, the Company adopted changes, with subsequent amendments, issued by the Financial Accounting Standards Board ("FASB") related to the recognition of revenue from contracts with customers. The changes clarify the principles for recognizing revenue and develop a common revenue standard. The core principle of the changes is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of these changes resulted in the following modifications to the Company's revenue recognition process:

- Harsco Industrial Segment - The timing of revenue recognition for air-cooled heat exchanger sales, which the Company historically recognized upon the completion of the efforts associated with these arrangements, is now recognized over time with the impact of increasing revenue in earlier periods. This change also impacted the Company's Condensed Consolidated Balance Sheets by decreasing both Inventories and Advances on contracts; and creating a new caption and establishing a balance related to Contract assets.
- Harsco Rail Segment - The timing of revenue recognition for certain railway track maintenance equipment sales, which the Company historically recognized upon the completion of the efforts associated with these arrangements, is now recognized over time with the impact of increasing revenue in earlier periods. This change also impacted the Company's Condensed Consolidated Balance Sheets by decreasing both Inventories and Advances on contracts; and creating a new caption and establishing a balance related to Contract assets. In addition, certain advance payments received from customers, which provide a significant benefit of financing and are expected to be outstanding longer than twelve months, are treated as significant financing components to the related transactions and the Company will increase the overall transaction price with a corresponding increase in interest expense.

Additionally, the Company's disclosure related to revenue recognition has been expanded in accordance with the FASB changes. Please refer to Note 14, Revenue Recognition for additional information.

The Company chose to implement the impact of the FASB changes utilizing the modified retrospective transition method, using the following practical expedients:

- The Company has elected to apply the changes only to revenue arrangements that were not completed as of January 1, 2018; and
- The Company has elected to reflect the aggregate effect of all contract modifications that occurred prior to the beginning of the earliest reported period when (i) identifying the satisfied and unsatisfied performance obligations; (ii) determining the transaction price; and (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

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Comparative information has not been restated and continues to be reported under U.S. GAAP in effect for those periods.

The cumulative effect of the changes made to the Condensed Consolidated Balance Sheet at January 1, 2018 was as follows:

(In thousands)	Balance at December 31, 2017	Impact of Adoption	Balance at January 1, 2018
ASSETS			
Current assets:			
Trade accounts receivable, net	$288,034	$ 532	$288,566
Inventories	178,293	(59,793)	118,500
Current portion of contract assets	—	18,248	18,248
Other current assets	39,332	179	39,511
Total current assets	592,092	(40,834)	551,258
Contract assets	—	3,566	3,566
Other assets	15,263	1,337	16,600
Total assets	1,578,685	(35,931)	1,542,754
LIABILITIES			
Current liabilities:			
Current portion of advances on contracts	117,958	(78,507)	39,451
Other current liabilities	133,368	13,995	147,363
Total current liabilities	474,128	(64,512)	409,616
Advances on contracts	—	24,564	24,564
Other liabilities	40,846	1,580	42,426
Total liabilities	1,363,520	(38,368)	1,325,152
HARSCO CORPORATION STOCKHOLDERS' EQUITY			
Accumulated other comprehensive loss	(546,582)	(1,520)	(548,102)
Retained earnings	1,157,801	3,957	1,161,758
Total Harsco Corporation stockholders' equity	170,451	2,437	172,888
Total equity	215,165	2,437	217,602
Total liabilities and equity	1,578,685	(35,931)	1,542,754

The impact of modifying the Company's Condensed Consolidated Balance Sheet at June 30, 2018 is as follows:

	June 30, 2018		
(In thousands)	As Reported	Impact of Adoption	As Reported - Less Impact of Adoption
ASSETS			
Current assets:			
Trade accounts receivable, net	$295,390	$ 271	$295,661
Inventories	130,871	78,533	209,404
Current portion of contract assets	18,798	(18,798)	—
Other current assets	44,562	(174)	44,388
Total current assets	584,057	59,832	643,889
Contract assets	3,566	(3,566)	—
Deferred income tax assets	42,387	959	43,346

Other assets	19,394	(1,231)	18,163
Total assets	1,611,412	55,994	1,667,406

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(In thousands)	June 30, 2018 As Reported	Impact of Adoption	As Reported - Less Impact of Adoption
LIABILITIES			
Current liabilities:			
Current portion of advances on contracts	39,559	79,991	119,550
Other current liabilities	130,577	(8,727)	121,850
Total current liabilities	381,306	71,264	452,570
Advances on contracts	13,493	(13,493)	—
Other liabilities	48,821	(301)	48,520
Total liabilities	1,345,259	57,470	1,402,729
HARSCO CORPORATION STOCKHOLDERS' EQUITY			
Accumulated other comprehensive loss	(557,889)	1,623	(556,266)
Retained earnings	1,219,992	(3,079)	1,216,913
Total Harsco Corporation stockholders' equity	223,732	(1,456)	222,276
Noncontrolling interests	42,421	(20)	42,401
Total equity	266,153	(1,476)	264,677
Total liabilities and equity	1,611,412	55,994	1,667,406

The impact of modifying the Company's Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 are as follows:

(In thousands, except per share amounts)	Three Months Ended June 30, 2018 As Reported	Impact of Adoption	As Reported - Less Impact of Adoption
Revenues from continuing operations:			
Services revenues	$257,963	$2,321	$260,284
Product revenues	174,009	(8,406)	165,603
Total revenues	431,972	(6,085)	425,887
Costs and expenses from continuing operations:			
Costs of services sold	195,906	1,349	197,255
Costs of products sold	122,976	(8,182)	114,794
Selling, general and administrative costs	58,927	21	58,948
Total costs and expenses	378,347	(6,812)	371,535
Operating income from continuing operations	53,625	727	54,352
Interest expense	(9,993)	451	(9,542)
Income from continuing operations before income taxes	44,079	1,178	45,257
Income tax expense	(1,944)	12	(1,932)
Income from continuing operations	42,135	1,190	43,325
Net income	42,711	1,190	43,901
Less: Net income attributable to noncontrolling interests	(2,222)	2	(2,220)
Net income attributable to Harsco Corporation	40,489	1,192	41,681
Amounts attributable to Harsco Corporation common stockholders:			

Income from continuing operations, net of tax	39,913	1,192	41,105
Net income attributable to Harsco Corporation common stockholders	40,489	1,192	41,681
Basic earnings per share attributable to Harsco Corporation common stockholders:			
Continuing operations	0.49	0.01	0.50
Basic earnings per share attributable to Harsco Corporation common stockholders	0.50	0.01	0.51
Diluted earnings per share attributable to Harsco Corporation common stockholders:			
Continuing operations	0.48	0.01	0.49
Diluted earnings per share attributable to Harsco Corporation common stockholders	0.48	0.01	0.49

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(In thousands, except per share amounts)	Six Months Ended June 30, 2018 As Reported	Impact of Adoption	As Reported - Less Impact of Adoption
Revenues from continuing operations:			
Services revenues	$512,925	$ 3,671	$516,596
Product revenues	327,085	(18,858)	308,227
Total revenues	840,010	(15,187)	824,823
Costs and expenses from continuing operations:			
Costs of services sold	395,279	2,707	397,986
Costs of products sold	234,956	(18,112)	216,844
Selling, general and administrative costs	116,010	37	116,047
Total costs and expenses	749,844	(15,368)	734,476
Operating income from continuing operations	90,166	181	90,347
Interest expense	(19,576)	903	(18,673)
Income from continuing operations before income taxes	72,374	1,084	73,458
Income tax expense	(10,210)	4	(10,206)
Income from continuing operations	62,164	1,088	63,252
Net income	62,288	1,088	63,376
Less: Net income attributable to noncontrolling interests	(3,991)	2	(3,989)
Net income attributable to Harsco Corporation	58,297	1,090	59,387
Amounts attributable to Harsco Corporation common stockholders:			
Income from continuing operations, net of tax	58,173	1,090	59,263
Net income attributable to Harsco Corporation common stockholders	58,297	1,090	59,387
Basic earnings per share attributable to Harsco Corporation common stockholders:			
Continuing operations	0.72	0.01	0.73
Basic earnings per share attributable to Harsco Corporation common stockholders	0.72	0.01	0.73
Diluted earnings per share attributable to Harsco Corporation common stockholders:			
Continuing operations	0.70	0.01	0.71
Diluted earnings per share attributable to Harsco Corporation common stockholders	0.70	0.01	0.71

The impact of modifying the Company's Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 is as follows:

(In thousands)	Six Months Ended June 30, 2018 As Reported	Impact of Adoption	As Reported - Less Impact of Adoption
Cash flows from operating activities:			
Net income	$62,288	$ 1,088	$63,376
Adjustments to reconcile net income to net cash used by operating activities:			
Deferred income tax expense (benefit)	340	(4)	336
Changes in assets and liabilities:			

Accounts receivable	(21,445)	(797)	(22,242)
Inventories	(11,175)	(22,661)	(33,836)
Contract assets	(1,393)	1,393	—
Advances on contracts	(13,116)	15,966	2,850
Other assets and liabilities	(11,334)	5,015	(6,319)
Net cash used by operating activities	46,699	—	46,699

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On January 1, 2018, the Company adopted changes issued by the FASB related to how employers that sponsor defined benefit pension plans and other postretirement plans present the net periodic pension cost ("NPPC") in the statement of operations. Employers are required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of NPPC are required to be presented in the statement of operations separately from the service cost component and outside of the subtotal of income from operations. The changes also allow only the service cost component to be eligible for capitalization. The adoption of these changes resulted in the Company reclassifying $0.7 million and $1.4 million of NPPC expense for the three months and six months ended June 30, 2017, respectively, from the captions Cost of services sold; Cost of products sold; and Selling, general and administrative expenses to the new caption, Defined benefit pension income (expense) in the Company's Condensed Consolidated Statements of Operations.

On January 1, 2018, the Company adopted changes issued by the FASB clarifying when revisions to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The changes require modification accounting only in circumstances when the terms or conditions result in changes to the fair value, vesting conditions or classification of the award as an equity instrument or a liability. The adoption of these changes did not have an impact on the Company's condensed consolidated financial statements.

On January 1, 2018, the Company adopted changes issued by FASB which eliminate the requirement to defer the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. Under the new guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The changes resulted in an adjustment to opening retained earnings of less than
$0.1 million.

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

In February 2016, the FASB issued changes in accounting for leases, which become effective for the Company on January 1, 2019. The changes introduce a lessee model that brings most leases onto the balance sheet, which will result in an increase in lease-related assets and liabilities. The changes also align many of the underlying principles of the new lessor model with those in the FASB’s new revenue recognition standard. Furthermore, the changes address other concerns related to the current leases model such as eliminating the requirement in current guidance for an entity to use bright-line tests in determining lease classification. The changes also require lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure. The Company is currently assessing existing leasing agreements, evaluating the practical expedients available upon adoption and assessing the impact of the changes on current accounting policies. In addition, the Company is in the process of identifying changes to current business processes and internal controls to support the reporting and disclosure requirements of the new standard. The impact on the consolidation financial statements is currently being evaluated.

In January 2017, the FASB issued changes that remove the second step of the annual goodwill impairment test, which requires a hypothetical purchase price allocation. The changes provide that the amount of goodwill impairment will be equal to the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance remains largely unchanged. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. The changes become effective for the Company on January 1, 2020. Management has determined that these changes will not have a material impact on the Company's condensed consolidated financial statements. However, should the Company be required to record a goodwill impairment charge in future periods, the amount recorded may differ compared to any amounts that might be recorded under current practice.

In August 2017, the FASB issued changes which expand and refine hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The amendments in this update should be applied to hedging relationships existing on the date of adoption, which includes a cumulative-effect adjustment to eliminate any ineffectiveness recorded to accumulated other comprehensive income or loss with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year in which adoption occurred. Presentation and disclosure amendments are required to be applied prospectively. The changes become effective for the Company on January 1, 2019. Management is currently evaluating the impact of these changes on its condensed consolidated financial statements.

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In February 2018, the FASB issued changes which allow entities to reclassify stranded income tax effects resulting from the Tax Cuts and Jobs Act (the “Act”) from accumulated other comprehensive income to retained earnings in their consolidated financial statements. Under the Act, deferred taxes were adjusted to reflect the reduction of the historical corporate income
tax rate to the newly enacted corporate income tax rate, which left the tax effects on items within accumulated other comprehensive income stranded at historical tax rates. The changes become effective for the Company on January 1, 2019. The Company had approximately $21 million of stranded income tax effects in accumulated other comprehensive income at December 31, 2017 resulting from the Act which the Company plans to reclassify upon initial adoption of these changes.

3. Acquisitions

In May 2018, the Company acquired Altek Europe Holdings Limited and its affiliated entities (collectively, "Altek"), a U.K.-based manufacturer of market leading products that enable aluminum producers and recyclers to manage and efficiently extract value from critical waste streams, reduce waste generation, and improve operating productivity. The Company acquired Altek, on a debt and cash free basis, for a purchase price of £45 million (approximately $60 million) in cash, with the potential for up to £25 million (approximately $33 million) in additional contingent consideration through 2021 subject to the future financial performance of Altek. The preliminary purchase price included an upfront payment of $60.1 million, subject to working capital adjustments and net of cash acquired, as well as contingent consideration with an estimated preliminary fair value of $10.1 million as of the acquisition date. Altek's revenues and operating results have been included in the results of the Harsco Metals & Minerals Segment and were not material to the Company's consolidated results for the three months ended June 30, 2018. The Company incurred approximately $1 million of costs associated with the Altek acquisition in the caption Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

The fair value recorded for the assets acquired and liabilities assumed for Altek is as follows:

(In millions)	Preliminary Valuation May 29, 2018
Cash and cash equivalents	$ 1.7
Net working capital	(1.5)
Property, plant and equipment	3.3
Intangible assets	52.5
Goodwill	20.9
Net deferred tax liabilities	(8.5)
Other liabilities	(0.3)
Total identifiable net assets of Altek	$ 68.2

The goodwill is attributable to strategic benefits, including enhanced operational and financial scale and product and market diversification that the Company expects to realize. The Company expects less than $1.0 million of goodwill to be deductible for income tax purposes.

The following table details the preliminary valuation of identifiable intangible assets and amortization periods for the Altek

(Dollars in millions)	Amortization Period	Preliminary Valuation

		May 29, 2018
Customer related	14.2 years	$ 11.5
Technology related	10.3 years	36.5
Trade names	15.0 years	4.5
Total identifiable intangible assets of Altek		$ 52.5

The Company valued the customer related assets, technology related assets, and trade names using an income based approach that utilized either the multi-period excess earnings method or the relief from royalty method.

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The preliminary fair value of contingent consideration was estimated using a probability simulation model, which uses assumptions and estimates to forecast a range of outcomes for the contingent consideration. Key inputs to the model include projected earnings before interest, tax depreciation and amortization; the discount rate; the projection risk neutralization rate; and volatility, which are Level 3 data. The Company will assess these assumptions and estimates on a quarterly basis as additional data impacting the assumptions is obtained. Any changes in the fair value of contingent consideration related to updated assumptions and estimates will be recognized in the Consolidated Statements of Operations during the period in which the change occurs.

The purchase price allocation for this transaction is not final and the fair value of intangible assets, goodwill and contingent consideration may vary significantly from those reflected in the condensed consolidated financial statements at June 30, 2018. Inclusion of pro forma financial information for this transaction is not necessary as the acquisition is immaterial to the Company's results of operations.

4. Accounts Receivable and Inventories

Accounts receivable consist of the following:

(In thousands)	June 30 2018	December 31 2017
Trade accounts receivable	$299,723	$ 292,765
Less: Allowance for doubtful accounts	(4,333)	(4,731)
Trade accounts receivable, net	$295,390	$ 288,034
Other receivables (a)	$27,349	$ 20,224

(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 (benefit) for doubtful accounts related to trade accounts receivable was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2018	2017	2018	2017
Provision (benefit) for doubtful accounts related to trade accounts receivable	$(110)	$1,197	$(156)	$1,175

Inventories consist of the following:

(In thousands)	June 30 2018	December 31 2017
Finished goods	$21,463	$ 26,415
Work-in-process	18,777	24,367
Contracts-in-process (b)	—	45,599
Raw materials and purchased parts	67,389	58,943
Stores and supplies	23,242	22,969
Total inventories	$130,871	$ 178,293

Contracts-in-process consist of the following:

(In thousands)	December 31 2017
Contract costs accumulated to date	$ 73,740
Estimated forward loss provisions for contracts-in-process (c)	(28,141)
Contracts-in-process (b) (d)	$ 45,599

(b) The Company has adopted the new revenue recognition standard utilizing the modified retrospective transition method, including use of practical expedients. Amounts previously reported as Contracts-in-progress have been recognized through the related cumulative catch-up adjustment. See Note 2, Recently Adopted and Recently Issued Accounting Standards for additional information.

(c) For periods prior to January 1, 2018, to the extent that the estimated forward loss provision exceeds accumulated contract costs it is included in the caption Other current liabilities on the Condensed Consolidated Balance Sheets and amounted to $3.0 million at December 31, 2017.

(d) At June 30, 2018 and December 31, 2017, the Company has $39.9 million and $97.9 million, respectively, of net customer advances related to SBB contracts. These amounts are included in the caption Current portion of advances on contracts and Advances on contracts, representing the non-current portion, on the Condensed Consolidated Balance Sheets.

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The Company recognized an initial estimated forward loss provision related to the contracts with the federal railway system of Switzerland ("SBB") of $45.1 million for the year ended December 31, 2016. The Company recorded an additional forward loss provision of $1.8 million for the six months ended June 30, 2018. At June 30, 2018, the entire remaining estimated forward loss provision of $10.2 million is included in the caption Other current liabilities on the Condensed Consolidated Balance Sheets. The estimated forward loss provision represents the Company's best estimate based on currently available information. It is possible that the Company's overall estimate of costs to complete these contracts may increase, which would result in an additional estimated forward loss provision at such time, but the Company is unable to estimate any further possible loss or range of loss at this time.

The Company recognized $7.5 million and $15.5 million of revenues for the contracts with SBB, on an over time basis, utilizing an input method based on costs incurred for the three and six months ended June 30, 2018, respectively. The Company did not recognize any revenue for the contracts with SBB for the three and six months ended June 30, 2017. For three and six months ended June 30, 2018, consolidated product revenue gross margins were not significantly impacted by the revenue recognized under the SBB contracts. The Company is approximately 98% complete on the first contract and 21% complete on the second contract with SBB as of June 30, 2018.

5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	June 30 2018	December 31 2017
Land	$10,532	$ 10,840
Land improvements	16,117	14,996
Buildings and improvements	194,193	198,582
Machinery and equipment	1,571,753	1,599,713
Uncompleted construction	27,466	24,387
Gross property, plant and equipment	1,820,061	1,848,518
Less: Accumulated depreciation	(1,358,155)	(1,368,771)
Property, plant and equipment, net	$461,906	$ 479,747

6. Goodwill and Other Intangible Assets

The following table reflects the changes in carrying amounts of goodwill by segment for the six months ended June 30, 2018:

(In thousands)	Harsco Metals & Minerals Segment	Harsco Industrial Segment	Harsco Rail Segment	Consolidated Totals
Balance at December 31, 2017	$381,893	$ 6,839	$13,026	$ 401,758
Changes to goodwill	20,942 (a)	—	—	20,942
Foreign currency translation	(8,863)	—	—	(8,863)
Balance at June 30, 2018	$393,972	$ 6,839	$13,026	$ 413,837

(a) Changes to goodwill in the Harsco Metals & Minerals Segment relate to the acquisition of Altek. The purchase price allocation is not yet final for this acquisition. See Note 3, Acquisitions.

The Company tests for goodwill impairment annually or more frequently if indicators of impairment exist, or if a decision is made to dispose of a business. The Company performs the annual goodwill impairment test as of October 1 and monitors for triggering events on an ongoing basis. The Company determined that, as of June 30, 2018, no interim goodwill impairment testing was necessary.

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Intangible assets included in the caption, Intangible assets, net, on the Condensed Consolidated Balance Sheets consist of the following:

(In thousands)	June 30, 2018 Gross Carrying Amount	June 30, 2018 Accumulated Amortization	December 31, 2017 Gross Carrying Amount	December 31, 2017 Accumulated Amortization
Customer related (b)	$161,149	$ 120,898	$153,014	$ 121,385
Patents	5,748	5,645	5,825	5,700
Technology related (b)	61,646	26,126	26,131	26,131
Trade names (b)	12,713	5,016	8,317	4,845
Other	8,748	6,054	8,875	5,850
Total	$250,004	$ 163,739	$202,162	$ 163,911

(b) The increase in Customer related, Technology related and Trade names intangible assets is related to the acquisition of Altek. The purchase price allocation is not yet final for this acquisition. See Note 3, Acquisitions.

Amortization expense for intangible assets was as follows:

(In thousands)	Three Months Ended June 30 2018	Three Months Ended June 30 2017	Six Months Ended June 30 2018	Six Months Ended June 30 2017
Amortization expense for intangible assets	$1,649	$1,280	$2,931	$2,598

The estimated amortization expense for the next five fiscal years based on current intangible assets is as follows:

(In thousands)	2018	2019	2020	2021	2022
Estimated amortization expense (c)	$7,900	$9,750	$9,250	$8,800	$8,500

(c) These estimated amortization expense amounts do not reflect the potential effect of future foreign currency exchange fluctuations and are subject to change pending finalization of the purchase price allocation for Altek.

7. Debt and Credit Agreements

In June 2018, the Company amended the existing Senior Secured Credit Facility in order to, among other things, reduce the interest rate applicable to the Term Loan Facility and to increase the limit of the Revolving Credit Facility. As a result of the amendments, borrowings under the Term Loan Facility now bear interest at a rate per annum of 225 basis points over the adjusted LIBOR rate and the facility limit under the Revolving Credit Facility has increased to $500 million. Additionally, a charge of $1.0 million was recorded during the second quarter of 2018 consisting principally of fees associated with the transaction and the write-off of unamortized deferred financing costs.

8. Employee Benefit Plans

Defined Benefit Pension Plans Net Periodic Pension Cost	Three Months Ended June 30 U.S. Plans		International Plans	
(In thousands)	2018	2017	2018	2017
Service costs	$11	$11	$408	$406
Interest costs	2,390	2,470	5,442	5,773
Expected return on plan assets	(3,017)	(2,621)	(10,696)	(10,515)
Recognized prior service costs	—	8	(37)	46
Recognized loss	1,302	1,425	3,690	4,087
Defined benefit pension plans net periodic pension cost (benefit)	$686	$1,293	$(1,193)	$(203)

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Defined Benefit Pension Plans Net Periodic Pension Cost	Six Months Ended June 30 U.S. Plans		International Plans	
(In thousands)	2018	2017	2018	2017
Service costs	$21	$22	$794	$817
Interest costs	4,781	4,939	11,114	11,507
Expected return on plan assets	(6,034)	(5,242)	(21,841)	(20,939)
Recognized prior service costs	—	16	(76)	91
Recognized loss	2,604	2,850	7,530	8,129
Settlement/curtailment losses	166	—	—	—
Defined benefit pension plans net periodic pension cost (income)	$1,538	$2,585	$(2,479)	$(395)

On January 1, 2018, the Company adopted changes issued by the FASB related to how employers that sponsor defined benefit pension plans and other postretirement plans present NPPC in the statement of operations. Employers are required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of NPPC are required to be presented in the statement of operations separately from the service cost component and outside of the subtotal of income from operations. See Note 2, Recently Adopted and Recently Issued Accounting Standards, for additional details.

Company Contributions	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2018	2017	2018	2017
Defined benefit pension plans (U.S.)	$2,067	$471	$3,351	$ 942
Defined benefit pension plans (International)	3,239	2,963	12,973	11,300
Multiemployer pension plans	519	498	1,020	983
Defined contribution pension plans	2,747	2,468	5,582	5,028

The Company's estimate of expected contributions to be paid during the remainder of 2018 for the U.S. and international defined benefit pension plans are $6.6 million and $5.6 million, respectively.

9. Income Taxes

Income tax expense related to continuing operations for the three and six months ended June 30, 2018 was $1.9 million and $10.2 million, respectively and for the three and six months ended June 30, 2017 was $11.2 million and $17.5 million, respectively. Income tax expense decreased primarily due to an $8.3 million tax benefit arising from the adjustment to certain existing deferred tax asset valuation allowances as the result of the Altek acquisition, as well as changes in U.S. tax law.

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, based on technical merits, including resolutions of any related appeals or litigation processes. The reserve for uncertain tax positions at June 30, 2018 was $4.9 million, including interest and penalties. Within the next twelve months, it is reasonably possible that $1.1 million of unrecognized income tax benefits will be recognized upon settlement of tax examinations and the expiration of various statutes of limitations.

As a result of the Act, the Company recorded a provisional charge of $48.7 million included in Income tax expense in the Company’s Consolidated Statements of Operations for 2017. The Company is currently accumulating and processing data to finalize the underlying calculations and expects to complete the calculation when the Company’s 2017 U.S. corporate income tax return is filed later in 2018.

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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 Company did not have any material accruals or record any material expenses related to environmental matters during the periods presented.

The Company evaluates its liability for future environmental remediation costs on a quarterly basis. Although 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 costs that are reasonably possible to be incurred by the Company in connection with environmental matters in excess of the amounts accrued would have a material adverse effect on the Company's financial condition, 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 of 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, 2018, the principal amount of the tax assessment from the SPRA with regard to this case is approximately $2 million, with penalty, interest and fees assessed to date increasing such amount by an additional $21 million. Any change in the aggregate amount since the Company's last Annual Report on Form 10-K for the year ended December 31, 2017 is due to an increase in assessed interest and statutorily mandated legal fees for the period, as well as foreign currency translation. On June 4, 2018, the Trial Court of the State of Sao Paulo ruled in favor of the SPRA, but ruled that the assessed penalty should be reduced to approximately $2 million. After calculating the interest accrued on the penalty, the Company estimates that this ruling reduces the current overall liability for this case to approximately $9 million. The Company has filed a motion for clarification on the ruling, which is still pending before the court. In the event the motion for clarification is unsuccessful, the Company plans to appeal both the liability ruling and the amount assessed. Due to multiple court precedents in the Company's favor, as well as the Company's ability to seek clarification as well as appeal, the Company does not believe a loss is probable. Another ICMS tax case involving the SPRA refers to the tax period from January 2002 to December 2003, and has not yet reached the judicial phase. The aggregate amount assessed by the tax authorities in August 2005 was $6.5 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 $1.5 million, with penalty and interest assessed through that date increasing such amount by an additional $5.0 million. All such amounts include the effect of foreign currency translation.

The Company continues to believe that sufficient coverage for these claims exists as a result of the indemnification obligations of the Company's customer and such customer's pledge of assets in connection with the October 2009 notice, as required by Brazilian law.

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. No loss provision has been recorded in the Company's condensed consolidated financial statements for the disputes described above because the loss contingency is not deemed probable, and the Company does not expect that any costs that are reasonably possible to be incurred by the Company in connection with Brazilian tax disputes would have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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Brazilian Labor Disputes
The Company is subject to ongoing collective bargaining and individual labor claims in Brazil through the Harsco Metals & Minerals Segment which allege, among other things, the Company's failure to pay required amounts for overtime and vacation at certain sites. The Company is vigorously defending itself against these claims; however, litigation is inherently unpredictable, particularly in foreign jurisdictions. While the Company does not currently expect that the ultimate resolution of these claims will have a material adverse effect on the Company’s financial condition, results of operations or cash flows, it is not possible to predict the ultimate outcome of these labor-related disputes.

The Company is continuing to review all known labor claims, and, as of June 30, 2018 and December 31, 2017, the Company has established reserves of $8.7 million and $9.6 million, respectively, on the Company's Condensed Consolidated Balance Sheets for amounts considered to be probable and estimable. As the Company continues to evaluate these claims and takes actions to address them, the amount of established reserves may be impacted.

Customer Disputes
The Company may, in the normal course of business, become involved in commercial disputes with subcontractors or customers. 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 or proceedings, management believes that the ultimate outcome of any on going matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Lima Refinery Litigation
On April 8, 2016, Lima Refining Company filed a lawsuit against the Company in the District Court of Harris County, Texas related to a January 2015 explosion at an oil refinery operated by Lima Refining Company. The action seeks approximately $106 million in property damages and approximately $289 million in lost profits and business interruption damages. The action alleges the explosion occurred because of a defect in a heat exchange cooler manufactured by Hammco Corporation ("Hammco") in 2009, prior to the Company’s acquisition of Hammco in 2014. The Company is vigorously contesting the allegations against it, both as to liability for the accident and the amount of the claimed damages. As a result, the Company believes the situation will not result in a probable loss. The Company has both an indemnity right from the sellers of Hammco and liability insurance coverage under various primary and excess policies that the Company believes will be available, if necessary, to cover substantially all of any such liability that might ultimately be incurred in the above action.

Compliance Matter
As previously disclosed, in 2017, the Company undertook an internal investigation, with the assistance of outside counsel, after it became aware of allegations involving an employee and an agent of the Harsco Rail subsidiary in China (“Harsco Rail China”). During this investigation the Company learned about certain payments that potentially violate the Foreign Corrupt Practices Act. Revenues attributed to Harsco Rail China were approximately 2% of the Company’s consolidated revenues for each of the prior three completed fiscal years.

The Company has voluntarily self-reported its initial findings to the SEC and the U.S. Department of Justice (the “DOJ”) and intends to fully cooperate with these agencies in their review. Based on information known to date, the Company believes the amount of the potential improper payments are not material to the condensed consolidated financial statements. Any determination that the Company's operations or activities were not in compliance with existing laws or regulations could result in the imposition of fines and penalties. No provision with respect to this matter has been made in the Company’s condensed consolidated financial statements. At this time, the Company cannot predict the outcome or impact of the investigation or the reviews by the SEC and the DOJ. However, based on information available at this time, the Company does not believe any potential liability would be material to the Company's condensed consolidated financial position, although an amount recorded, if any, could be material to the results of operations for the period in which it may be recorded.

Other

The Company is named as one of many defendants (approximately 90 or more in most cases) in legal actions in the U.S. 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 asbestos-containing part of a Company product used in the past was purchased from a supplier and the asbestos encapsulated in other materials such that airborne exposure, if it occurred, was not harmful and is not associated with the types of injuries alleged in the pending actions.

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At June 30, 2018, there were 17,286 pending asbestos personal injury actions filed against the Company. Of those actions, 16,737 were filed in the New York Supreme Court (New York County), 111 were filed in other New York State Supreme Court Counties and 438 were filed in courts located in other states.

The complaints in most of those actions generally follow a form that contains a standard damages demand of $20 million or $25 million, regardless of the individual plaintiff's alleged medical condition, and without identifying any specific Company product.

At June 30, 2018, 16,704 of the actions filed in New York Supreme Court (New York County) were on the Deferred/Inactive Docket created by the court in December 2002 for all pending and future asbestos actions filed by persons who cannot demonstrate that they have a malignant condition or discernible physical impairment. The remaining 33 cases in New York County are pending on the Active or In Extremis Docket created for plaintiffs who can demonstrate a malignant condition or physical impairment.

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 in the asbestos actions referred to above. The costs and expenses of the asbestos actions are being paid by the Company's insurers.

In view of the persistence of asbestos litigation in the U.S., the Company expects to continue to receive additional claims in the future. The Company intends to continue its practice of vigorously defending these claims and cases. At June 30, 2018, the Company has obtained dismissal in 27,999 cases by stipulation or summary judgment prior to trial.

It is not possible to predict the ultimate outcome of asbestos-related actions in the U.S. due to the unpredictable nature of this litigation, and no loss provision has been recorded in the Company's condensed consolidated financial statements because a loss contingency is not deemed probable or estimable. Despite this uncertainty, and although results of operations and cash flows for a given period could be adversely affected by asbestos-related actions, the Company does not expect that any costs that are reasonably possible to be incurred by the Company in connection with asbestos litigation would have a material adverse effect on the Company's financial condition, results of operations or cash flows.

As previously disclosed, the Company has had ongoing meetings with the Supreme Council for Environment in Bahrain ("SCE") over processing a byproduct ("salt cakes") stored at the Al Hafeerah site. The Company's Bahrain operations that produced the salt cakes has ceased operations and are owned under a strategic venture for which its strategic venture partner owns a 35% minority interest. An Environmental Impact Assessment and Technical Feasibility Study were approved by the SCE during the first quarter of 2018. The Company has previously established a reserve of $7.0 million, payable over several years, related to the estimated cost of processing and disposal of the salt cakes. This reserve represents the Company's best estimate of ultimate costs to be incurred. The Company continues to evaluate this reserve and any future change in estimated costs could be material to the Company's results of operations in any one period.

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 Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for additional information on Accrued insurance and loss reserves.

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11. Reconciliation of Basic and Diluted Shares

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands, except per share amounts)	2018	2017	2018	2017
Income from continuing operations attributable to Harsco Corporation common stockholders	$39,913	$18,635	$58,173	$27,902
Weighted-average shares outstanding - basic	80,861	80,535	80,756	80,460
Dilutive effect of stock-based compensation	2,782	2,315	2,838	2,098
Weighted-average shares outstanding - diluted	83,643	82,850	83,594	82,558
Earnings from continuing operations per common share, attributable to Harsco Corporation common stockholders:				
Basic	$0.49	$0.23	$0.72	$0.35
Diluted	$0.48	$0.22	$0.70	$0.34

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

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2018	2017	2018	2017
Restricted stock units	—	—	—	—
Stock options	—	55	—	55
Stock appreciation rights	283	972	489	1,117
Performance share units	—	176	—	320

12. Derivative Instruments, Hedging Activities and Fair Value

Derivative Instruments and Hedging Activities

The Company uses derivative instruments, including foreign currency exchange forward contracts, interest rate swaps and cross-currency interest rate swaps ("CCIRs"), to manage certain foreign currency 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 Condensed Consolidated Balance Sheets 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 may be accounted for as cash flow hedges, as deemed appropriate if the criteria for hedge accounting are met. Gains and losses on derivatives designated as cash flow hedges are deferred in Accumulated other comprehensive loss, a separate component of equity, and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. The ineffective portion of all hedges, if any, is recognized currently in earnings.

The fair value of outstanding derivative contracts recorded as assets and liabilities on the Condensed Consolidated Balance Sheets was as follows:

	Asset Derivatives		Liability Derivatives	
(In thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
June 30, 2018				

Derivatives designated as hedging instruments:				
Foreign currency exchange forward contracts	Other current assets	$ 2,183	Other current liabilities	$ 389
Interest rate swaps	Other current assets	1,623		
Interest rate swaps	Other assets	3,142	Other liabilities	$ 353
Total derivatives designated as hedging instruments		$ 6,948		$ 742
Derivatives not designated as hedging instruments:				
Foreign currency exchange forward contracts	Other current assets	$ 11,567	Other current liabilities	$ 2,415

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(In thousands)	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
December 31, 2017				
Derivatives designated as hedging instruments:				
Foreign currency exchange forward contracts	Other current assets	$ 2,329	Other current liabilities	$ 153
Interest rate swaps	Other current assets	464		
Interest rate swaps	Other assets	170	Other liabilities	1,368
Total derivatives designated as hedging instruments		$ 2,963		$ 1,521
Derivatives not designated as hedging instruments:				
Foreign currency exchange forward contracts	Other current assets	$ 2,915	Other current liabilities	$ 6,970

All of the Company's derivatives are recorded in the Condensed Consolidated Balance Sheets at gross amounts and not offset. All of the Company's interest rate swaps, CCIRs and certain foreign currency exchange forward contracts are transacted under International Swaps and Derivatives Association ("ISDA") documentation. Each ISDA master agreement permits the net settlement of amounts owed in the event of default. The Company's derivative assets and liabilities subject to enforceable master netting arrangements resulted in a net asset of $1.1 million and a net liability of $0.2 million at June 30, 2018 and December 31, 2017, respectively.

The effect of derivative instruments in the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Comprehensive Income, was as follows:

Derivatives Designated as Hedging Instruments

(In thousands)	Amount Recognized in Other Comprehensive Income ("OCI") on Derivative - Effective Portion		Location of Amount Reclassified from Accumulated OCI into Income - Effective Portion	Amount Reclassified from Accumulated OCI into Income - Effective Portion or Equity	Location of Amount Recognized in Income on Derivative - Ineffective Portion and Amount Excluded from Effectiveness Testing	Amount Recognized in Income on Derivative - Ineffective Portion and Amount Excluded from Effectiveness Testing
Three Months Ended June 30, 2018:						
Foreign currency exchange forward contracts	$ 1,539		Product revenues	$ 103		$ —
Interest rate swaps	2,071		Interest expense	(235)		—
Cross-currency interest rate swaps	93	(a)	Interest expense	377		—
	$ 3,703			$ 245		$ —
Three Months Ended June 30, 2017:						
Foreign currency exchange forward contracts	$ 1,001		Product revenues/Cost of services and products sold	$ (186)		$ —
Interest rate swaps	(2,021)			—		—
Cross-currency interest rate swaps	3	(a)	Interest Expense	251	Cost of services and products sold	(107)
	$ (1,017)			$ 65		$ (107)

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(In thousands)	Amount Recognized in OCI on Derivative - Effective Portion	Location Amount Reclassified from Accumulated OCI into Income - Effective Portion	Amount Reclassified from Accumulated OCI into Income - Effective Portion	Location of Amount Recognized in Income on Derivative - Ineffective Portion and Amount Excluded from Effectiveness Testing	Amount Recognized in Income on Derivative - Ineffective Portion and Amount Excluded from Effectiveness Testing
Six Months Ended June 30, 2018:					
Foreign currency forward exchange contracts	$ 1,779	Product revenues / Cost of services and products sold	$ (109)		$ —
Foreign currency forward exchange contracts	—				