HARSCO CORP
Form 10-Q
August 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2009

OR

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

Commission File Number 1-3970

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 31, 2009
Common stock, par value $1.25 per share	80,314,809

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands, except per share amounts)	2009	2008 (a)	2009	2008 (a)
Revenues from continuing operations:				
Service revenues	$616,217	$944,490	$1,178,649	$1,797,118
Product revenues	160,758	155,098	295,216	290,260
Total revenues	776,975	1,099,588	1,473,865	2,087,378
Costs and expenses from continuing operations:				
Cost of services sold	471,490	686,531	912,109	1,324,589
Cost of products sold	101,143	105,215	197,409	198,162
Selling, general and administrative expenses	130,915	160,332	255,912	316,964
Research and development expenses	732	1,508	1,375	2,561
Other (income) expense	2,336	163	(470)	(117)
Total costs and expenses	706,616	953,749	1,366,335	1,842,159
Operating income from continuing operations	70,359	145,839	107,530	245,219
Equity in income of unconsolidated entities, net	65	246	152	650
Interest income	512	886	1,057	1,800
Interest expense	(15,486)	(19,075)	(30,799)	(36,194)
Income from continuing operations before income taxes	55,450	127,896	77,940	211,475
Income tax expense	(12,473)	(35,000)	(13,984)	(59,188)
Income from continuing operations	42,977	92,896	63,956	152,287
Discontinued operations:				
Loss from discontinued business	(2,157)	(841)	(3,911)	(586)
Income tax benefit	688	353	1,218	246
Loss from discontinued operations	(1,469)	(488)	(2,693)	(340)
Net Income	41,508	92,408	61,263	151,947
Less: Net income attributable to noncontrolling interests	(900)	(2,525)	(2,063)	(5,025)
Net Income attributable to Harsco Corporation	$40,608	$89,883	$59,200	$146,922
Amounts attributable to Harsco Corporation common stockholders:				
Income from continuing operations, net of tax	$42,077	$90,371	$61,893	$147,262
Loss from discontinued operations, net of tax	(1,469)	(488)	(2,693)	(340)
Net income attributable to Harsco Corporation common stockholders	$40,608	$89,883	$59,200	$146,922

Average shares of common stock outstanding	80,289		84,271		80,269		84,323	
Basic earnings per common share attributable to Harsco Corporation common stockholders:								
Continuing operations	$0.52		$1.07		$0.77		$1.75	
Discontinued operations	(0.02	)	(0.01	)	(0.03	)	(0.00	)
Basic earnings per share attributable to Harsco Corporation common stockholders	$0.51	(b)	$1.07	(b)	$0.74		$1.74	(b)
Diluted average shares of common stock outstanding	80,554		84,751		80,519		84,801	
Diluted earnings per common share attributable to Harsco Corporation common stockholders:								
Continuing operations	$0.52		$1.07		$0.77		$1.74	
Discontinued operations	(0.02	)	(0.01	)	(0.03	)	(0.00	)
Diluted earnings per share attributable to Harsco Corporation common stockholders	$0.50		$1.06		$0.74		$1.73	(b)
Cash dividends declared per common share	$0.20		$0.195		$0.40		$0.39	

(a) On January 1, 2009, the Company adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," the provisions of which, among others, require that minority interests be renamed noncontrolling interests and that a company present a consolidated net income measure that includes the amount attributable to such noncontrolling interests for all periods presented. Results have been reclassified accordingly.

(b) Does not total due to rounding.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	June 30 2009	December 31 2008 (a)
ASSETS		
Current assets:		
Cash and cash equivalents	$69,981	$91,336
Trade accounts receivable, net	642,073	648,880
Other receivables	36,358	46,032
Inventories	295,890	309,530
Other current assets	95,920	104,430
Assets held-for-sale	578	5,280
Total current assets	1,140,800	1,205,488
Property, plant and equipment, net	1,485,581	1,482,833
Goodwill	666,371	631,490
Intangible assets, net	136,077	141,493
Other assets	62,407	101,666
Total assets	$3,491,236	$3,562,970
LIABILITIES		
Current liabilities:		
Short-term borrowings	$68,085	$117,854
Current maturities of long-term debt	2,546	3,212
Accounts payable	203,668	262,783
Accrued compensation	67,102	85,237
Income taxes payable	13,632	13,395
Dividends payable	16,059	15,637
Insurance liabilities	26,623	36,553
Advances on contracts	141,355	144,237
Other current liabilities	209,798	209,518
Total current liabilities	748,868	888,426
Long-term debt	931,639	891,817
Deferred income taxes	34,358	35,442
Insurance liabilities	62,660	60,663
Retirement plan liabilities	197,237	190,153
Other liabilities	48,205	46,497
Total liabilities	2,022,967	2,112,998
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Harsco Corporation stockholders’ equity:		
Preferred stock, Series A junior participating cumulative preferred stock	—	—
Common stock	139,163	138,925
Additional paid-in capital	137,038	137,083
Accumulated other comprehensive loss	(204,797)	(208,299)
Retained earnings	2,106,259	2,079,170
Treasury stock	(735,016)	(733,203)
Total Harsco Corporation stockholders’ equity	1,442,647	1,413,676
Noncontrolling interests	25,622	36,296
Total equity	1,468,269	1,449,972

Total liabilities and equity	$3,491,236	$3,562,970

(a) On January 1, 2009, the Company adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," the provisions of which, among others, require that minority interests be renamed noncontrolling interests and that a company present such noncontrolling interests as equity for all periods presented. Results have been reclassified accordingly.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)	Six Months Ended June 30 2009	Six Months Ended June 30 2008 (a)
Cash flows from operating activities:		
Net income	$61,263	$151,947
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	139,146	157,542
Amortization	13,556	15,449
Equity in income of unconsolidated entities, net	(152)	(650)
Dividends or distributions from unconsolidated entities	100	484
Other, net	(9,175)	(7,712)
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Accounts receivable	34,933	(104,705)
Inventories	20,927	(45,846)
Accounts payable	(67,122)	41,397
Accrued interest payable	10,987	15,818
Accrued compensation	(19,795)	(18,368)
Other assets and liabilities	(28,418)	5,057
Net cash provided by operating activities	156,250	210,413
Cash flows from investing activities:		
Purchases of property, plant and equipment	(82,579)	(258,283)
Purchases of businesses, net of cash acquired	(2,754)	(13,575)
Proceeds from sales of assets	11,034	7,167
Other investing activities	(815)	15,279
Net cash used by investing activities	(75,114)	(249,412)
Cash flows from financing activities:		
Short-term borrowings, net	(53,881)	73,783
Current maturities and long-term debt:		
Additions	241,725	686,373
Reductions	(244,349)	(675,649)
Cash dividends paid on common stock	(31,687)	(32,899)
Dividends paid to noncontrolling interests	(2,440)	(3,372)
Purchase of noncontrolling interest	(12,886)	—
Common stock issued-options	434	1,276
Common stock acquired for treasury	—	(16,858)
Other financing activities	—	(64)
Net cash provided (used) by financing activities	(103,084)	32,590
Effect of exchange rate changes on cash	593	7,885

Net increase (decrease) in cash and cash equivalents	(21,355)	1,476
Cash and cash equivalents at beginning of period	91,336	121,833
Cash and cash equivalents at end of period	$69,981	$123,309

(a) On January 1, 2009, the Company adopted SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51,” the provisions of which, among others, require that minority interests be renamed noncontrolling interests for all periods presented. Results have been reclassified accordingly.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

	Harsco Corporation Stockholders' Equity						
	Common Stock				Accumulated Other Comprehensive		
(In thousands, except share and per share amounts)	Issued	Treasury	Additional Paid-in Capital	Retained Earnings	Income (Loss)	Noncontrolling Interest (a)	Total Equity
Beginning Balances, January 1, 2008	$138,665	$(603,169)	$128,622	$1,903,049	$ (129)	$ 38,023	$1,605,061
Net income				146,922		5,025	151,947
Cash dividends declared:							
Common @ $0.39 per share				(32,892)			(32,892)
Noncontrolling interests						(3,372)	(3,372)
Translation adjustments, net of deferred income taxes of $(3,441)					89,168	3,980	93,148
Cash flow hedging instrument adjustments, net of deferred income taxes of $(696)					1,693		1,693
Pension liability adjustments, net of deferred income taxes of $(1,965)					3,937		3,937
Marketable securities unrealized loss, net of deferred income taxes of $21					(39)		(39)
Stock options exercised, 83,976 shares	105		2,428				2,533
Net issuance of stock – vesting of restricted stock units, 50,224 shares	100	(1,457)					(1,357)
Treasury shares repurchased, 300,000 shares		(16,858)					(16,858)
Amortization of unearned compensation on restricted stock units,			2,809				2,809

net of forfeitures							
Balances, June 30, 2008	$138,870	$(621,484)	$133,859	$2,017,079	$ 94,630	$ 43,656	$1,806,610
Beginning Balances, January 1, 2009	$138,925	$(733,203)	$137,083	$2,079,170	$(208,299)	$36,296	$1,449,972
Net income				59,200		2,063	61,263
Cash dividends declared:							
Common @ $0.40 per share				(32,111)			(32,111)
Noncontrolling interests						(2,440)	(2,440)
Translation adjustments, net of deferred income taxes of $(18,958)					49,599	411	50,010
Cash flow hedging instrument adjustments, net of deferred income taxes of $9,667					(26,190)		(26,190)
Purchase of subsidiary shares from noncontrolling interest			(2,224)			(10,708)	(12,932)
Pension liability adjustments, net of deferred income taxes of $8,996					(19,903)		(19,903)
Marketable securities unrealized loss, net of deferred income taxes of $2					(4)		(4)
Stock options exercised, 53,350 shares	66	(423)	853				496
Net issuance of stock – vesting of restricted stock units, 84,254 shares	172	(1,390)	(594)				(1,812)
Amortization of unearned compensation on restricted stock units, net of forfeitures			1,920				1,920
Balances, June 30, 2009	$139,163	$(735,016)	$137,038	$2,106,259	$(204,797)	$25,622	$1,468,269

(a) On January 1, 2009, the Company adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," the provisions of which, among others, require that minority interests be renamed noncontrolling interests and be presented as a component of Equity for all periods presented. Results have been reclassified accordingly.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)	Three Months Ended June 30 2009	Three Months Ended June 30 2008 (a)
Net income	$41,508	$92,408
Other comprehensive income (loss):		
Foreign currency translation adjustments	115,081	19,874
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of $7,199 and ($745) in 2009 and 2008, respectively	(10,397)	1,846
Reclassification adjustment for gain on cash flow hedging instruments included in net income, net of deferred income taxes of $266 and $2 in 2009 and 2008, respectively	(494)	(3)
Pension liability adjustments, net of deferred income taxes of $12,970 and ($937) in 2009 and 2008, respectively	(28,564)	2,342
Unrealized gain (loss) on marketable securities, net of deferred income taxes of ($9) and $11 in 2009 and 2008, respectively	16	(20)
Total other comprehensive income	75,642	24,039
Total comprehensive income	117,150	116,447
Less: Comprehensive income attributable to noncontrolling interests	(2,323)	(7,988)
Comprehensive income attributable to Harsco Corporation	$114,827	$108,459

(In thousands)	Six Months Ended June 30 2009	Six Months Ended June 30 2008 (a)
Net income	$61,263	$151,947
Other comprehensive income (loss):		
Foreign currency translation adjustments	50,010	93,148
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of $8,546 and ($700) in 2009 and 2008, respectively	(24,108)	1,699
Reclassification adjustment for gain on cash flow hedging instruments included in net income, net of deferred income taxes of $1,121 and $4 in 2009 and 2008, respectively	(2,082)	(6)
Pension liability adjustments, net of deferred income taxes of $8,996 and ($1,965) in 2009 and 2008, respectively	(19,903)	3,937

Unrealized loss on marketable securities, net of deferred income taxes of $2 and $21 in 2009 and 2008, respectively	(4)	(39)
Total other comprehensive income	3,913	98,739
Total comprehensive income	65,176	250,686
Less: Comprehensive income attributable to noncontrolling interests	(2,474)	(9,005)
Comprehensive income attributable to Harsco Corporation	$62,702	$241,681

(a) On January 1, 2009, the Company adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," the provisions of which, among others, require that minority interests be renamed noncontrolling interests for all periods presented. Results have been reclassified accordingly.

See accompanying notes to unaudited condensed consolidated financial statements.

HARSCO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A. Basis of Presentation

The unaudited condensed consolidated financial statements and notes included in this report have been prepared by management of Harsco Corporation (the "Company"). In the opinion of management, all adjustments (all of which are of a normal recurring nature) that are necessary for a fair presentation are reflected in the condensed consolidated financial statements. The December 31, 2008 Condensed Consolidated Balance Sheet information contained in this Form 10-Q was derived from the 2008 audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America for a year-end report. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company's 2008 Annual Report on Form 10-K.

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

In accordance with SFAS 160, adopted by the Company on January 1, 2009, prior year amounts have been retrospectively adjusted to conform with the current year presentation. See Note J, "Recently Adopted and Recently Issued Accounting Standards," for a further description of SFAS 160.

B. Review of Operations by Segment

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008	
(In thousands)	Revenues	Operating Income (Loss)	Revenues	Operating Income (Loss)
Harsco Infrastructure Segment	$ 308,765	$ 24,928	$ 429,176	$ 58,134
Harsco Metals Segment	259,479	4,220	445,490	37,114
Segment Totals	568,244	29,148	874,666	95,248
All Other Category – Harsco Minerals & Rail	208,671	42,659	224,862	52,036
General Corporate	60	(1,448)	60	(1,445)
Totals	$ 776,975	$ 70,359	$ 1,099,588	$ 145,839

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
(In thousands)	Revenues	Operating Income	Revenues	Operating Income

		(Loss)		(Loss)
Harsco Infrastructure Segment	$ 592,511	$ 43,765	$ 808,000	$ 95,972
Harsco Metals Segment	497,865	1,405	862,206	66,321
Segment Totals	1,090,376	45,170	1,670,206	162,293
All Other Category – Harsco Minerals & Rail	383,369	66,100	417,052	85,978
General Corporate	120	(3,740)	120	(3,052)
Totals	$ 1,473,865	$ 107,530	$ 2,087,378	$ 245,219

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

(In thousands)	Three Months Ended June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Segment Operating Income	$ 29,148	$ 95,248	$ 45,170	$ 162,293
All Other Category – Harsco Minerals & Rail	42,659	52,036	66,100	85,978
General Corporate	(1,448)	(1,445)	(3,740)	(3,052)
Operating income from continuing operations	70,359	145,839	107,530	245,219
Equity in income of unconsolidated entities, net	65	246	152	650
Interest income	512	886	1,057	1,800
Interest expense	(15,486)	(19,075)	(30,799)	(36,194)
Income from continuing operations before income taxes	$ 55,450	$ 127,896	$ 77,940	$ 211,475

C. Accounts Receivable and Inventories

At June 30, 2009 and December 31, 2008, Trade accounts receivable of $642.1 million and $648.9 million, respectively, were net of an allowance for doubtful accounts of $28.4 million and $27.9 million, respectively. The provision for doubtful accounts was $6.2 million and $1.8 million for the three months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, the provision for doubtful accounts was $8.2 million and $3.2 million, respectively. Other receivables include insurance claim receivables, employee receivables, tax claims receivable and other miscellaneous receivables not included in Trade accounts receivable, net.

Inventories consist of the following:

(In thousands)	Inventories June 30 2009	Inventories December 31 2008
Finished goods	$ 142,327	$ 156,490
Work-in-process	22,715	21,918
Raw materials and purchased parts	84,169	83,372
Stores and supplies	46,679	47,750
Total Inventories	$ 295,890	$ 309,530

D. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	June 30 2009	December 31 2008
Land and improvements	$ 43,698	$ 41,913
Buildings and improvements	194,319	167,606
Machinery and equipment	3,051,760	2,905,398
Uncompleted construction	71,305	75,210
Gross property, plant and equipment	3,361,082	3,190,127
Less accumulated depreciation	(1,875,501)	(1,707,294)
Net property, plant and equipment	$ 1,485,581	$ 1,482,833

E. 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, 2009:

Goodwill by Segment

(In thousands)	Harsco Infrastructure Segment	Harsco Metals Segment	All Other Category – Harsco Minerals & Rail	Consolidated Totals
Balance as of December 31, 2008	$ 220,547	$ 299,613	$ 111,330	$ 631,490
Changes to goodwill	29	1,954	(346)	1,637
Foreign currency translation	17,398	14,309	1,537	33,244
Balance as of June 30, 2009	$ 237,974	$ 315,876	$ 112,521	$ 666,371

The following table reflects intangible assets by major category:

Intangible Assets

	June 30, 2009		December 31, 2008	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$ 145,314	$ 51,420	$ 138,752	$ 40,821
Non-compete agreements	1,420	1,276	1,414	1,196
Patents	7,002	4,450	6,316	4,116
Other	63,018	23,531	60,495	19,309
Total	$ 216,754	$ 80,677	$ 206,977	$ 65,442

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

Acquired Intangible Assets

(In thousands)	Gross Carrying Amount	Residual Value	Weighted-average Amortization Period
Patents	$ 425	None	15 years
Total	$ 425		

There were no research and development assets acquired and written off in the first six months of 2009 or 2008.

Amortization expense for intangible assets was $6.3 million and $12.5 million for the second quarter and first six months of 2009, respectively. This compares with $7.3 million and $14.5 million for the second quarter and first six months of 2008, respectively. The following table shows the estimated amortization expense for the next five fiscal years based on current intangible assets:

(In thousands)	2009	2010	2011	2012	2013
Estimated amortization expense (a)	$25,000	$24,000	$23,200	$11,000	$9,600

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

F. Acquisitions and Dispositions

Acquisitions
In April 2009, the Company acquired the noncontrolling interests of three of its Asia-Pacific region consolidated subsidiaries in the Harsco Metals Segment for $12.9 million. In accordance with SFAS 160, the acquisition of these joint venture partner interests was accounted for as an equity transaction since the Company retained its controlling interest in the subsidiaries.

Net Income Attributable to the Company and Transfers to Noncontrolling Interest
The purpose of the following schedule is to disclose the effects of changes in the Company's ownership interest in its subsidiaries on the Company's equity.

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2009	2008	2009	2008
Net income attributable to the Company	$40,608	$89,883	$59,200	$146,922
Decrease in the Company's paid-in capital for purchase of joint venture partner interests	(2,224)	—	(2,224)	—
Change from net income attributable to the Company and transfers to noncontrolling interest	$38,384	$89,883	$56,976	$146,922

Dispositions
On December 7, 2007, the Company sold its Gas Technologies Segment to Wind Point Partners, a private equity investment firm. The terms of the sale include a total purchase price of $340 million, including $300 million paid in cash at closing and $40 million payable in the form of an earnout contingent on the Gas Technologies group achieving certain performance targets in 2008 or 2009. The thresholds for achieving the earnout for 2008 were not met and the Company does not expect them to be met for 2009. The Company recorded a $26.4 million after-tax gain on the sale in the fourth quarter of 2007. The Company recorded $2.7 million in after-tax expenses in the first half of 2009 related to a partial settlement of working capital adjustment claims and other costs associated with ongoing arbitration proceedings as described in Note G, "Commitments and Contingencies." The amount of the working capital adjustments is not final at June 30, 2009, due to possible final adjustments, as provided in the purchase agreement, and the potential earnout.

G. Commitments and Contingencies

Environmental

The Company is involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a “potentially responsible party” for certain waste disposal sites. While each of these matters is subject to various uncertainties, it is probable that the Company will agree to make payments toward funding certain of these activities and it is possible that some of these matters will be decided unfavorably to the Company. The Company has evaluated its potential liability, and its financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Consolidated Balance Sheets at June 30, 2009 and December 31, 2008 include accruals of $4.0 million and $3.2 million, respectively, for environmental matters. The amounts charged against pre-tax income related to environmental matters totaled $0.8 million and $1.2 million for the second quarter and first six months of 2009, respectively. This compares with $0.5 million and $0.8 million for the second quarter and first six months of 2008, respectively.

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

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

Satisfactory Resolution of Customer Contract Matter
The Company and its largest customer, ArcelorMittal, recently satisfactorily resolved a matter relating to unilateral action taken by ArcelorMittal to revise the fixed-fee provisions of certain contracts between the parties. As a result of the recent active dialogue between the Company and ArcelorMittal, this matter has now been resolved in a manner that should have long-term benefits for both parties.

ArcelorMittal represented approximately 10% of the Company's sales in the years ended December 31, 2008, 2007 and 2006. Sales to ArcelorMittal were less than 10% of the Company's sales in the three and six months ended June 30, 2009 due primarily to reduced steel production levels; the Company's exiting a number of underperforming contracts with ArcelorMittal; and a stronger U.S. dollar. For similar reasons, the Company expects ArcelorMittal sales throughout 2009 to represent less than 10% of the Company's sales.

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

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

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

As of June 30, 2009, there are 26,219 pending asbestos personal injury claims filed against the Company. Of these cases, 25,683 were pending in the New York Supreme Court for New York County in New York State. The other claims, totaling 536, 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, 2009, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in 18,106 cases.

In view of the persistence of asbestos litigation nationwide, which has not yet been sufficiently addressed either politically or legally, the Company expects to continue to receive additional claims. However, there have been developments during the past several years, both by certain state legislatures and by certain state courts, which could favorably affect the Company's ability to defend these asbestos claims in those jurisdictions. These developments include procedural changes, docketing changes, proof of damage requirements and other changes that require plaintiffs to follow specific procedures in bringing their claims and to show proof of damages before they can proceed with their claim. An example is the action taken by the New York Supreme Court (a trial court), which is responsible for managing all asbestos cases pending within New York County in the State of New York. This Court issued an order in December 2002 that created a Deferred or Inactive Docket for all pending and future asbestos claims filed by plaintiffs who cannot demonstrate that they have a malignant condition or discernable physical impairment, and an Active or In Extremis Docket for plaintiffs who are able to show such medical condition. As a result of this order, the majority of the asbestos cases filed against the Company in New York County have been moved to the Inactive Docket until such time as the plaintiffs can show that they have incurred a physical impairment. As of June 30, 2009, the Company has been listed as a defendant in 315 Active or In Extremis asbestos cases in New York County. The Court's Order has been challenged by plaintiffs.

Except with regard to the legal costs in a few limited, exceptional cases, the Company's insurance carrier has paid all legal and settlement costs and expenses to date. The Company has liability insurance coverage under various primary and excess policies that the Company believes will be available, if necessary, to substantially cover any liability that might ultimately be incurred on these claims.

The Company intends to continue its practice of vigorously defending these cases as they are listed for trial. It is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although results of operations and cash flows for a given period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate outcome of these cases will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company is subject to various other claims and legal proceedings covering a wide range of matters that arose in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Insurance liabilities are recorded in accordance with SFAS No. 5, "Accounting for Contingencies." Insurance reserves have been estimated based primarily upon actuarial calculations and reflect the undiscounted estimated liabilities for ultimate losses including claims incurred but not reported. Inherent in these estimates are assumptions which are based on the Company's history of claims and losses, a detailed analysis of existing claims with respect to potential value, and current legal and legislative trends. If actual claims differ from those projected by management, changes (either increases or decreases) to insurance reserves may be required and would be recorded through income in the period the change was determined. When a recognized liability is covered by third-party insurance, the Company records an insurance claim receivable to reflect the covered liability. Insurance claim receivables are included in Other receivables in the Company's Consolidated Balance Sheets. See Note 1, "Summary of Significant Accounting Policies," of the Company's Form 10-K for the year ended December 31, 2008, for additional information on Accrued Insurance and Loss Reserves.

Gas Technologies Divestiture

As has been indicated in previous disclosure filings, the working capital adjustments associated with the Gas Technologies divestiture have not yet been finalized. The Company has reflected a portion of the claimed amount of the adjustment in the Company's financial statements as of June 30, 2009. Any additional final adjustment amounts are not expected to be material to the Company's financial position, results of operations or cash flows. As part of its effort to resolve the working capital adjustment claims, the Company submitted this matter to arbitration in the first quarter of 2009. In response to this filing, Taylor-Wharton International, the purchaser of the business, submitted certain counter-claims seeking damages in excess of $30 million, relating primarily to the alleged breach of certain representations and warranties made by the Company under the Purchase Agreement. The Company intends to vigorously defend against the counter-claims. The Company believes that it will be successful in its defense of these claims and does not believe that any amount it will have to pay in connection with these claims would have a material adverse effect on its financial position, results of operations or cash flows.

H. Reconciliation of Basic and Diluted Shares

(Amounts in thousands, except per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Income from continuing operations attributable to Harsco Corporation common stockholders	$ 42,077	$ 90,371	$ 61,893	$ 147,262
Average shares outstanding - basic	80,289	84,271	80,269	84,323
Dilutive effect of stock-based compensation	265	480	250	478
Average shares outstanding - diluted	80,554	84,751	80,519	84,801