

HARSCO CORP  
Form 10-Q  
November 09, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015

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  
(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 ✓ 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 ✓ 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 ✓

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO ✓

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

Class

Outstanding at October 30, 2015

Common stock, par value \$1.25 per share

80,094,365

Table of Contents

HARSCO CORPORATION  
FORM 10-Q  
INDEX

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Equity (Unaudited)</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Item 2.</u>	
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
<u>Item 4.</u>	
<u>Controls and Procedures</u>	<u>42</u>
 <u>PART II — OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	<u>43</u>
<u>Item 1A.</u>	
<u>Risk Factors</u>	<u>43</u>
<u>Item 6.</u>	
<u>Exhibits</u>	<u>43</u>
<u>SIGNATURES</u>	<u>44</u>
<u>EXHIBIT INDEX</u>	<u>45</u>

Table of Contents

## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HARSCO CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	September 30 2015	December 31 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$57,994	\$62,843
Trade accounts receivable, net	298,235	325,104
Other receivables	23,293	28,145
Inventories	210,296	178,922
Other current assets	90,897	88,465
Total current assets	680,715	683,479
Investments	266,707	288,505
Property, plant and equipment, net	583,707	663,244
Goodwill	406,338	416,155
Intangible assets, net	56,240	58,524
Other assets	120,947	159,320
Total assets	\$2,114,654	\$2,269,227
<b>LIABILITIES</b>		
Current liabilities:		
Short-term borrowings	\$14,945	\$16,748
Current maturities of long-term debt	21,869	25,188
Accounts payable	135,723	146,506
Accrued compensation	45,894	53,780
Income taxes payable	5,880	1,985
Dividends payable	16,419	16,535
Insurance liabilities	12,408	12,415
Advances on contracts	118,586	117,398
Due to unconsolidated affiliate	7,832	8,142
Unit adjustment liability	22,320	22,320
Other current liabilities	144,504	144,543
Total current liabilities	546,380	565,560
Long-term debt	822,390	829,709
Deferred income taxes	9,913	6,379
Insurance liabilities	32,288	35,470
Retirement plan liabilities	306,040	350,889
Due to unconsolidated affiliate	21,081	20,169
Unit adjustment liability	61,194	71,442
Other liabilities	42,075	37,699
Total liabilities	1,841,361	1,917,317
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>HARSCO CORPORATION STOCKHOLDERS' EQUITY</b>		
Preferred stock	—	—
Common stock	140,503	140,444
Additional paid-in capital	169,109	165,666

Edgar Filing: HARSCO CORP - Form 10-Q

Accumulated other comprehensive loss	(566,903	) (532,256	)
Retained earnings	1,247,485	1,283,549	
Treasury stock	(760,299	) (749,815	)
Total Harsco Corporation stockholders' equity	229,895	307,588	
Noncontrolling interests	43,398	44,322	
Total equity	273,293	351,910	
Total liabilities and equity	\$2,114,654	\$2,269,227	

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

## HARSCO CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Revenues from continuing operations:				
Service revenues	\$272,463	\$341,831	\$852,100	\$1,054,591
Product revenues	155,871	184,546	483,560	519,613
Total revenues	428,334	526,377	1,335,660	1,574,204
Costs and expenses from continuing operations:				
Cost of services sold	224,588	282,907	714,287	873,747
Cost of products sold	112,043	125,831	343,825	361,954
Selling, general and administrative expenses	64,526	67,774	186,891	212,537
Research and development expenses	1,057	854	3,490	4,575
Loss on disposal of the Harsco Infrastructure Segment and transaction costs	1,000	54	1,000	4,653
Other expenses	17,392	513	3,829	27,373
Total costs and expenses	420,606	477,933	1,253,322	1,484,839
Operating income from continuing operations	7,728	48,444	82,338	89,365
Interest income	264	555	951	1,262
Interest expense	(11,110)	(11,949)	(34,812)	(35,328)
Change in fair value to the unit adjustment liability	(2,083)	(2,398)	(6,492)	(7,417)
Income (loss) from continuing operations before income taxes and equity loss	(5,201)	34,652	41,985	47,882
Income tax expense	(6,985)	(13,925)	(26,945)	(24,079)
Equity in income (loss) of unconsolidated entities, net	3,105	5,805	(396)	1,057
Income (loss) from continuing operations	(9,081)	26,532	14,644	24,860
Discontinued operations:				
Income (loss) on disposal of discontinued business	(637)	(640)	(849)	452
Income tax (expense) benefit related to discontinued business	235	237	313	(168)
Income (loss) from discontinued operations	(402)	(403)	(536)	284
Net income (loss)	(9,483)	26,129	14,108	25,144
Less: Net (income) loss attributable to noncontrolling interests	827	(1,532)	(925)	(2,948)
Net income (loss) attributable to Harsco Corporation	\$(8,656)	\$24,597	\$13,183	\$22,196
Amounts attributable to Harsco Corporation common stockholders:				
Income (loss) from continuing operations, net of tax	\$(8,254)	\$25,000	\$13,719	\$21,912
Income (loss) from discontinued operations, net of tax	(402)	(403)	(536)	284
Net income (loss) attributable to Harsco Corporation common stockholders	\$(8,656)	\$24,597	\$13,183	\$22,196
Weighted-average shares of common stock outstanding	80,238	80,918	80,233	80,873
Basic earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	\$(0.10)	\$0.31	\$0.17	\$0.27
Discontinued operations	(0.01)	—	(0.01)	—
	\$(0.11)	\$0.30	(a) \$0.16	\$0.27

Edgar Filing: HARSCO CORP - Form 10-Q

Basic earnings (loss) per share attributable to Harsco Corporation common stockholders

Diluted weighted-average shares of common stock outstanding	80,238	81,099	80,363	81,093
Diluted earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	\$(0.10	) \$0.31	\$0.17	\$0.27
Discontinued operations	(0.01	) —	(0.01	) —
Diluted earnings (loss) per share attributable to Harsco Corporation common stockholders	\$(0.11	) \$0.30	(a) \$0.16	\$0.27
Cash dividends declared per common share	\$0.205	\$0.205	\$0.615	\$0.615

(a) Does not total due to rounding.

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

## HARSCO CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(In thousands)	Three Months Ended	
	September 30	
	2015	2014
Net income (loss)	\$(9,483	) \$26,129
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of \$(3,747) and \$5,322 in 2015 and 2014, respectively	(36,854	) (18,355
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of \$(799) and \$(458) in 2015 and 2014, respectively	4,164	(1,244
Pension liability adjustments, net of deferred income taxes of \$(2,384) and \$(2,057) in 2015 and 2014, respectively	19,580	18,211
Unrealized gain (loss) on marketable securities, net of deferred income taxes of \$4 and \$(1) in 2015 and 2014, respectively	(8	) 2
Total other comprehensive loss	(13,118	) (1,386
Total comprehensive income (loss)	(22,601	) 24,743
Less: Comprehensive (income) loss attributable to noncontrolling interests	1,917	(877
Comprehensive income (loss) attributable to Harsco Corporation	\$(20,684	) \$23,866
	Nine Months Ended	
	September 30	
	2015	2014
Net income	\$14,108	\$25,144
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of \$(855) and \$4,862 in 2015 and 2014, respectively	(74,671	) (16,608
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of \$(1,337) and \$210 in 2015 and 2014, respectively	10,045	(3,111
Pension liability adjustments, net of deferred income taxes of \$(3,344) and \$(2,130) in 2015 and 2014, respectively	27,796	18,887
Unrealized gain (loss) on marketable securities, net of deferred income taxes of \$7 and \$(3) in 2015 and 2014, respectively	(12	) 6
Total other comprehensive loss	(36,842	) (826
Total comprehensive income (loss)	(22,734	) 24,318
Less: Comprehensive (income) loss attributable to noncontrolling interests	1,270	(1,879
Comprehensive income (loss) attributable to Harsco Corporation	\$(21,464	) \$22,439

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

## HARSCO CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended	
	September 30	
(In thousands)	2015	2014
Cash flows from operating activities:		
Net income	\$ 14,108	\$ 25,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	110,343	124,855
Amortization	9,003	8,937
Change in fair value to the unit adjustment liability	6,492	7,417
Deferred income tax expense	9,998	4,054
Equity in (income) loss of unconsolidated entities, net	396	(1,057 )
Loss on disposal of Harsco Infrastructure Segment	—	2,911
Other, net	(12,345 )	16,677
Changes in assets and liabilities:		
Accounts receivable	9,161	(38,349 )
Inventories	(36,472 )	(22,772 )
Accounts payable	(3,346 )	(18,250 )
Accrued interest payable	7,658	8,741
Accrued compensation	(3,640 )	9,415
Advances on contracts	7,548	96,041
Harsco 2011/2012 Restructuring Program accrual	(305 )	(2,455 )
Other assets and liabilities	(29,497 )	(36,019 )
Net cash provided by operating activities	89,102	185,290
Cash flows from investing activities:		
Purchases of property, plant and equipment	(91,583 )	(135,170 )
Proceeds from the Infrastructure Transaction	—	15,699
Proceeds from sales of assets	20,777	11,153
Purchases of businesses, net of cash acquired	(7,705 )	(26,244 )
Payment of unit adjustment liability	(16,740 )	(16,740 )
Other investing activities, net	(7,975 )	473
Net cash used by investing activities	(103,226 )	(150,829 )
Cash flows from financing activities:		
Short-term borrowings, net	1,211	3,971
Current maturities and long-term debt:		
Additions	92,993	117,470
Reductions	(101,679 )	(120,544 )
Cash dividends paid on common stock	(49,311 )	(49,734 )
Dividends paid to noncontrolling interests	(1,559 )	(2,186 )
Purchase of noncontrolling interests	(395 )	—
Common stock acquired for treasury	(12,143 )	—
Proceeds from cross-currency interest rate swap termination	75,057	—
Other financing activities, net	(2,607 )	—
Net cash provided (used) by financing activities	1,567	(51,023 )
Effect of exchange rate changes on cash	7,708	(4,440 )



Edgar Filing: HARSCO CORP - Form 10-Q

Net decrease in cash and cash equivalents	(4,849	) (21,002	)
Cash and cash equivalents at beginning of period	62,843	93,605	
Cash and cash equivalents at end of period	\$57,994	\$72,603	

See accompanying notes to unaudited condensed consolidated financial statements.

6

---

Table of Contents

## HARSCO CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

(In thousands, except share and per share amounts)	Harsco Corporation Stockholders' Equity				Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Common Stock		Additional Paid-in Capital	Retained Earnings			
	Issued	Treasury					
Balances, January 1, 2014	\$ 140,248	\$(746,237)	\$ 159,025	\$ 1,372,041	\$(370,615)	\$ 43,093	\$ 597,555
Net income				22,196		2,948	25,144
Cash dividends declared:							
Common @ \$0.615 per share				(49,763)			(49,763)
Noncontrolling interests						(2,319)	(2,319)
Total other comprehensive income (loss), net of deferred income taxes of \$2,939					243	(1,069)	(826)
Contributions from noncontrolling interests						1,560	1,560
Noncontrolling interests transferred in the Infrastructure Transaction						(905)	(905)
Vesting of restricted stock units and other stock grants, net 130,603 shares	195	(712)	2,067				1,550
Amortization of unearned portion of stock-based compensation, net of forfeitures			3,881				3,881
Balances, September 30, 2014	\$ 140,443	\$(746,949)	\$ 164,973	\$ 1,344,474	\$(370,372)	\$ 43,308	\$ 575,877
(In thousands, except share and per share amounts)	Harsco Corporation Stockholders' Equity				Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Common Stock		Additional Paid-in Capital	Retained Earnings			
	Issued	Treasury					
Balances, January 1, 2015	\$ 140,444	\$(749,815)	\$ 165,666	\$ 1,283,549	\$(532,256)	\$ 44,322	\$ 351,910
Net income				13,183		925	14,108
Cash dividends declared:							
Common @ \$0.615 per share				(49,247)			(49,247)
Noncontrolling interests						(1,559)	(1,559)
Total other comprehensive loss, net of deferred income taxes of \$(5,529)					(34,647)	(2,195)	(36,842)
Contributions from noncontrolling interests						2,100	2,100
Purchase of subsidiary shares from noncontrolling interest			(3)			(395)	(398)
Sale of investment in consolidated subsidiary						200	200
Vesting of restricted stock units and other stock grants, net 31,147 shares	59	(264)	(99)				(304)

Edgar Filing: HARSCO CORP - Form 10-Q

Treasury shares repurchased, 596,632 shares	(10,220 )					(10,220 )
Amortization of unearned portion of stock-based compensation, net of forfeitures		3,545				3,545
Balances, September 30, 2015	\$ 140,503	\$(760,299)	\$ 169,109	\$ 1,247,485	\$(566,903)	\$ 43,398
						\$ 273,293

See accompanying notes to unaudited condensed consolidated financial statements.

7

---

Table of Contents

## HARSCO CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 1. Basis of Presentation

Harsco Corporation (the “Company”) has prepared these unaudited condensed consolidated financial statements based on Securities and Exchange Commission rules that permit reduced disclosure for interim periods. In the opinion of management, all adjustments (all of which are of a normal recurring nature) that are necessary for a fair statement are reflected in the unaudited condensed consolidated financial statements. The December 31, 2014 Condensed Consolidated Balance Sheet information contained in this Quarterly Report on Form 10-Q was derived from the 2014 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for an annual report. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as revised in the Company’s Current Report on Form 8-K filed on June 1, 2015. Operating results and cash flows for the three and nine months ended September 30, 2015 are not indicative of the results that may be expected for the year ending December 31, 2015.

## 2. Revised Financial Statements

During the first quarter of 2015, the Company identified an error that would have had the net effect of decreasing after-tax income by \$7.5 million, related to an unasserted multiemployer pension plan withdrawal liability that should have been recorded by the Company in the fourth quarter of 2012. The Company became aware of the potential withdrawal liability during the first quarter of 2015 and followed the Company’s standard procedure of engaging outside experts to determine the amount of potential liability. Based on these procedures, the Company determined it had triggered a partial withdrawal during the fourth quarter of 2012 due to a decrease in hours worked by the Company’s employees who participate in the plan and that such amount should have been accrued in that period. The Company assessed the individual and aggregate impact of this error on the current year and all prior periods and determined that the cumulative effect of this error was material to both the first quarter and expected full-year 2015 results, but did not result in a material misstatement to any previously issued annual or quarterly financial statements. Accordingly, the Company is revising the relevant financial statements for all applicable periods and will revise additional financial statements as they appear in future filings.

In connection with the revision, the Company additionally corrected all previously disclosed immaterial out-of-period adjustments, including tax adjustments. The impact of revising the Company’s Condensed Consolidated Balance Sheets, Condensed Statements of Operations and Condensed Consolidated Statements of Cash Flows for all periods presented are as follows:

(In thousands)	December 31, 2014		
	As Previously Reported	Revision	As Revised
<b>ASSETS</b>			
Inventories	\$177,265	\$1,657	\$178,922
Total current assets	681,822	1,657	683,479
Other assets	155,551	3,769	159,320
Total assets	2,263,801	5,426	2,269,227
<b>LIABILITIES</b>			
Other liabilities	\$25,849	\$11,850	\$37,699
Total liabilities	1,905,467	11,850	1,917,317

HARSCO CORPORATION STOCKHOLDERS' EQUITY

Accumulated other comprehensive loss	\$ (532,491	) \$ 235	\$ (532,256	)
Retained earnings	1,290,208	(6,659	) 1,283,549	
Total Harsco Corporation stockholders' equity	314,012	(6,424	) 307,588	
Total equity	358,334	(6,424	) 351,910	
Total liabilities and equity	2,263,801	5,426	2,269,227	

8

---

Table of Contents

(In thousands, except per share amounts)	Three Months Ended September 30, 2014		
	As Previously Reported	Revision	As Revised
Costs and expenses from continuing operations:			
Cost of services sold	\$285,098	\$(2,191)	) \$282,907
Selling, general and administrative expenses	68,289	(515)	) 67,774
Total costs and expenses	480,639	(2,706)	) 477,933
Operating income from continuing operations	\$45,738	\$2,706	\$48,444
Income from continuing operations before income taxes and equity income	31,946	2,706	34,652
Income tax expense	(11,671)	) (2,254)	) (13,925)
Equity in income of unconsolidated entities, net	5,295	510	5,805
Income from continuing operations	25,570	962	26,532
Net income	25,167	962	26,129
Net income attributable to Harsco Corporation	23,635	962	24,597
Amounts attributable to Harsco Corporation common stockholders:			
Income from continuing operations, net of tax	\$24,038	\$962	\$25,000
Net income attributable to Harsco Corporation common stockholders	23,635	962	24,597
Basic income per common share attributable to Harsco Corporation common stockholders:			
Continuing operations	\$0.30	\$0.01	\$0.31
Basic income per share attributable to Harsco Corporation common stockholders	0.29	0.01	0.30
Diluted income per common share attributable to Harsco Corporation common stockholders:			
Continuing operations	\$0.30	\$0.01	\$0.31
Diluted income per share attributable to Harsco Corporation common stockholders	0.29	0.01	0.30

Table of Contents

(In thousands, except per share amounts)	Nine Months Ended September 30, 2014		
	As Previously Reported	Revision	As Revised
Revenues from continuing operations:			
Service revenues	\$1,054,040	\$551	\$1,054,591
Total revenues	1,573,653	551	1,574,204
Costs and expenses from continuing operations:			
Cost of services sold	\$875,898	\$(2,151)	\$873,747
Selling, general and administrative expenses	213,052	(515)	212,537
Research and development expenses	5,456	(881)	4,575
Loss on disposal of the Harsco Infrastructure Segment and transaction costs	5,607	(954)	4,653
Total costs and expenses	1,489,340	(4,501)	1,484,839
Operating income from continuing operations	\$84,313	\$5,052	\$89,365
Income from continuing operations before income taxes and equity income	42,830	5,052	47,882
Income tax expense	(20,424)	(3,655)	(24,079)
Income from continuing operations	23,463	1,397	24,860
Net income	23,747	1,397	25,144
Net income attributable to Harsco Corporation	20,799	1,397	22,196
Amounts attributable to Harsco Corporation common stockholders:			
Income from continuing operations, net of tax	\$20,515	\$1,397	\$21,912
Net income attributable to Harsco Corporation common stockholders	20,799	1,397	22,196
Basic income per common share attributable to Harsco Corporation common stockholders:			
Continuing operations	\$0.25	\$0.02	\$0.27
Basic income per share attributable to Harsco Corporation common stockholders	0.26	0.01	0.27
Diluted earnings per common share attributable to Harsco Corporation common stockholders:			
Continuing operations	\$0.25	\$0.02	\$0.27
Diluted income per share attributable to Harsco Corporation common stockholders	0.26	0.01	0.27

(In thousands)	Nine Months Ended September 30, 2014		
	As Previously Reported	Revision	As Revised
Net cash provided (used) by:			
Operating activities	\$184,409	\$881	\$185,290
Investing activities	(149,948)	(881)	(150,829)

As of September 30, 2015, the cumulative impact of this revision was a \$6.7 million reduction in retained earnings. The diluted loss per share from continuing operations decrease for the year ended December 31, 2014 was \$0.03. The

diluted loss per share from continuing operations increase for the years ended December 31, 2013 and 2012 was \$0.06 for both periods. The notes to the condensed consolidated financial statements for the three and nine months ended September 30, 2015 have been revised, as applicable.



Table of Contents

3. Recently Adopted and Recently Issued Accounting Standards

The following accounting standards have been adopted in 2015:

On January 1, 2015, the Company adopted changes issued by the Financial Accounting Standards Board ("FASB") related to reporting discontinued operations and the disclosure of disposals of components of an entity. The changes modify the criteria related to what transactions constitute discontinued operations and expand disclosure requirements. The adoption of these changes did not have a material impact on the Company's condensed consolidated financial statements.

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

In May 2014, the FASB issued changes 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 changes also require additional disclosures related to revenue recognition. In July 2015, the FASB deferred the effective date of these changes by one year, but will permit entities to adopt one year earlier. The changes become effective for the Company on January 1, 2018. Management is currently evaluating these changes.

In August 2014, the FASB issued changes related to management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The changes become effective for the Company on January 1, 2017. Management has determined that these changes will not have a material impact on the Company's condensed consolidated financial statements.

In January 2015, the FASB issued changes related to reporting extraordinary and unusual items. The changes simplify income statement presentation by eliminating the concept of extraordinary items. The changes become effective for the Company on January 1, 2016. Management has determined that these changes will not have a material impact on the Company's condensed consolidated financial statements.

In February 2015, the FASB issued changes related to consolidation. The changes update consolidation analysis and affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. The changes become effective for the Company on January 1, 2016. Management has determined that these changes will not have a material impact on the Company's condensed consolidated financial statements.

In April 2015, the FASB issued changes related to simplifying the presentation of debt issuance costs. The changes require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability. In August 2015, the FASB added guidance about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The changes become effective for the Company on January 1, 2016. Management has determined that these changes will not have a material impact on the Company's condensed consolidated financial statements.

In April 2015, the FASB issued changes related to the determination of whether a cloud computing arrangement includes a software license. If a cloud computing arrangement is determined to include a software license, then the customer accounts for the software license element consistent with the acquisition of other software licenses. If the arrangement is determined not to contain a software license, the customer should account for the arrangement as a service contract. The changes become effective for the Company on January 1, 2016. Management has determined that these changes will not have a material impact on the Company's condensed consolidated financial statements.

In July 2015, the FASB issued changes related to the simplification of the measurement of inventory. The changes require entities to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The changes do not apply to inventories that are measured using either the last-in, first-out method or the retail inventory method. The changes become effective for the Company on January 1, 2017. Management has determined that these changes will not have a material impact on the Company's condensed consolidated financial statements.



Table of Contents

In September 2015, the FASB issued changes simplifying the accounting for measurement period adjustments for business combinations. The changes result in an acquirer no longer being required to retrospectively reflect adjustments to provisional amounts during the measurement period as if they were recognized as of the acquisition date. Instead the acquirer would record the effect of the change to the provisional amounts during the measurement period in which the adjustment is identified. The changes also require additional disclosure related to such measurement period adjustments. The changes become effective for the Company on January 1, 2016. Management has determined that these changes will not have a material impact on the Company's condensed consolidated financial statements.

## 4. Acquisitions

In March 2015, the Company acquired Protran Technology ("Protran"), a U.S. designer and producer of safety systems for transportation and industrial applications; and in April 2015, the Company acquired JK Rail Products, LLC ("JK Rail"), a provider of after-market parts for railroad track maintenance. Protran and JK Rail have been included in the results of the Harsco Rail Segment. Inclusion of pro forma financial information for these transactions is not necessary as the acquisitions are immaterial.

## 5. Accounts Receivable and Inventories

Accounts receivable consist of the following:

(In thousands)	September 30 2015	December 31 2014
Trade accounts receivable	\$322,751	\$340,223
Less: Allowance for doubtful accounts	(24,516 )	(15,119 )
Trade accounts receivable, net	\$298,235	\$325,104

Other receivables (a)	\$23,293	\$28,145
-----------------------	----------	----------

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

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

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Provision for doubtful accounts related to trade accounts receivable	\$10,005	\$(170 )	\$10,615	\$7,176

The increase in the Allowance for doubtful accounts since December 31, 2014 and the Provision for doubtful accounts for the three and nine months ended September 30, 2015 relates to one European customer in the Harsco Metals & Minerals Segment which ceased operations and began the formal process of liquidation.

Inventories consist of the following:

(In thousands)	September 30 2015	December 31 2014
Finished goods	\$35,898	\$30,525
Work-in-process	69,938	28,690
Raw materials and purchased parts	75,927	87,985
Stores and supplies	28,533	31,722
Inventories	\$210,296	\$178,922



Table of Contents

## 6. Equity Method Investments

In November 2013, the Company consummated the previously announced transaction to sell the Company's Harsco Infrastructure Segment into a strategic venture with Clayton, Dubilier & Rice ("CD&R") as part of a transaction that combined the Harsco Infrastructure Segment with Brand Energy & Infrastructure Services, Inc., which CD&R simultaneously acquired (the "Infrastructure Transaction"). As a result of the Infrastructure Transaction, the Company owns an approximate 29% equity interest in Brand Energy & Infrastructure Services Inc. and Subsidiaries ("Brand" or the "Infrastructure strategic venture") at both September 30, 2015 and December 31, 2014.

The book value of the Company's equity method investment in Brand at September 30, 2015 and December 31, 2014 was \$264.2 million and \$285.7 million, respectively. The Company records the Company's proportionate share of Brand's net income or loss one quarter in arrears. Brand's results of operations for the three months ended June 30, 2015 and 2014 and the nine months ended June 30, 2015 and the period from November 27, 2013 through June 30, 2014, are summarized as follows:

(In thousands)	Three Months Ended June 30 2015	Three Months Ended June 30 2014	Nine Months Ended June 30 2015	Period From November 27 2013 Through June 30 2014
Summarized Statement of Operations Information of Brand:				
Net revenues	\$736,178	\$827,735	\$2,217,904	\$1,805,592
Gross profit	154,710	187,272	486,656	387,966
Net income (loss) attributable to Brand Energy & Infrastructure Services, Inc. and Subsidiaries	10,817	18,866	(1,384	) 4,259
Harsco's equity in income (loss) of Brand	3,105	5,770	(396	) 1,021

The Company is required to make a quarterly payment to the Company's partner in the Infrastructure strategic venture, either (at the Company's election) (i) in cash, with total payments to equal approximately \$22 million per year on a pre-tax basis (approximately \$15 million per year after-tax), or (ii) in kind, through the transfer of approximately 2.5% of the Company's ownership interest in the Infrastructure strategic venture on an annual basis (the "unit adjustment liability"). The resulting liability is reflected in the caption, Unit adjustment liability, on the Company's Condensed Consolidated Balance Sheets. The Company will recognize the change in fair value to the unit adjustment liability each period until the Company is no longer required to make these payments or chooses not to make these payments. The change in fair value to the unit adjustment liability is a non-cash expense. For the three and nine months ended September 30, 2015, the Company recognized \$2.1 million and \$6.5 million, respectively, of change in fair value to the unit adjustment liability, compared to \$2.4 million and \$7.4 million for the three and nine months ended September 30, 2014, respectively.

The Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014 include balances related to the unit adjustment liability of \$83.5 million and \$93.8 million, respectively, in the current and non-current captions, Unit adjustment liability. A reconciliation of beginning and ending balances related to the unit adjustment liability is included in Note 14, Derivative Instruments, Hedging Activities and Fair Value.

The Company intends to make these quarterly payments in cash and will continue to evaluate the implications of making payments in cash or in kind based upon performance of the Infrastructure strategic venture. In the future, should the Company decide not to make the cash payment, the value of both the equity method investment in Brand and the related unit adjustment liability may be impacted, and the change may be reflected in earnings in that period.

Edgar Filing: HARSCO CORP - Form 10-Q

Balances related to transactions between the Company and Brand are as follows:

(In thousands)	September 30 2015	December 31 2014
Balances due from Brand	\$2,330	\$1,860
Balances due to Brand	28,913	28,311

These balances between the Company and Brand relate primarily to the funding of certain transferred defined benefit pension plan obligations through 2018. There is not expected to be any significant level of revenue or expense between the Company and Brand on an ongoing basis once all aspects of the Infrastructure Transaction have been finalized.

Table of Contents

7. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)

Land

September 30 2015	December 31 2014
\$11,065	\$15,721