

HARSCO CORP
Form 10-Q
August 02, 2018
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 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 NO

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

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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES 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 July 31, 2018 |
| Common stock, par value \$1.25 per share | 80,846,067 |

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 (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>34</u> |
| <u>Item 3.</u> | |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>42</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 2.</u> | |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>43</u> |
| <u>Item 6.</u> | |
| <u>Exhibits</u> | <u>43</u> |
| <u>SIGNATURES</u> | <u>44</u> |

Table of Contents

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 |

Edgar Filing: HARSCO CORP - Form 10-Q

| | | | |
|---|-------------|-------------|---|
| 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.

3

Table of Contents

HARSCO CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30 | | 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.

4

Table of Contents

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.

Table of Contents

HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Six Months Ended | |
|---|------------------|-----------|
| | June 30 | |
| (In thousands) | 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.

Table of Contents

HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

| (In thousands, except share amounts) | Harsco Corporation Stockholders' Equity | | | | | | |
|--|---|-------------|----------------------------|-------------------|--------------------------------------|--------------------------|------------|
| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total |
| Issued | Treasury | | | | | | |
| 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 |
| (In thousands) | Harsco Corporation Stockholders' Equity | | | | | | |
| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total |
| Issued | Treasury | | | | | | |
| 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: | | | | | | | |
| Sale of subsidiary shares to noncontrolling interest | | | | | | (5,521) | (5,521) |
| 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 |

Edgar Filing: HARSCO CORP - Form 10-Q

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.

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 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.

Table of Contents

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 |

Edgar Filing: HARSCO CORP - Form 10-Q

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

9

Table of Contents

| (In thousands) | June 30, 2018 | |
|--|---------------|---------------------------------------|
| | As Reported | As Reported - Less Impact of Adoption |
| LIABILITIES | | |
| Current liabilities: | | |
| Current portion of advances on contracts | 39,579,991 | 119,550 |
| Other current liabilities | 130,687,727 | 121,850 |
| Total current liabilities | 381,306,64 | 452,570 |
| Advances on contracts | 13,403,493 | — |
| Other liabilities | 48,801 | 48,520 |
| Total liabilities | 1,345,725,70 | 1,402,729 |
| HARSCO CORPORATION STOCKHOLDERS' EQUITY | | |
| Accumulated other comprehensive loss | (557,882) | (556,266) |
| Retained earnings | 1,216,913 | 1,216,913 |
| Total Harsco Corporation stockholders' equity | 223,732,56 | 222,276 |
| Noncontrolling interests | 42,401 | 42,401 |
| Total equity | 266,115,76 | 264,677 |
| Total liabilities and equity | 1,615,492,4 | 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: | | | |

Edgar Filing: HARSCO CORP - Form 10-Q

| | | | |
|--|--------|-------|--------|
| 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 |

10

Table of Contents

| | Six Months Ended June 30, 2018 | | |
|--|-----------------------------------|-----------------------|---|
| (In thousands, except per share amounts) | 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:

| | Six Months Ended June 30, 2018 | | |
|---|-----------------------------------|-----------------------|---|
| (In thousands) | 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: | | | |

Edgar Filing: HARSCO CORP - Form 10-Q

| | | | |
|---------------------------------------|-----------|-----------|-----------|
| 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 |

Table of Contents

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.

Table of Contents

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:

| | Preliminary Valuation May 29, 2018 |
|--|---|
| (In millions) | |
| 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

| | Amortization Period | Preliminary Valuation |
|-----------------------|---------------------|--------------------------|
| (Dollars in millions) | | |

Edgar Filing: HARSCO CORP - Form 10-Q

| | | 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.

Table of Contents

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:

| (In thousands) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------------|---------|--------------------------------|---------|
| | 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.

Table of Contents

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.

Table of Contents

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

| (In thousands) | June 30, 2018 | | December 31, 2017 | |
|------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | 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 | | Six Months Ended | |
|----------------|--|---------|------------------|---------|
| | June 30 | | June 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| | Amortization expense for intangible assets | \$1,649 | \$1,280 | \$2,931 |

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

| (In thousands) | Three Months Ended | | | |
|---|--------------------|---------|---------------------|----------|
| | June 30 | | June 30 | |
| Defined Benefit Pension Plans Net Periodic Pension Cost | U.S. Plans | | International Plans | |
| | 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) |

Table of Contents

| | Six Months Ended | | | |
|---|------------------|----------|---------------------|-----------|
| | June 30 | | | |
| Defined Benefit Pension Plans Net Periodic Pension Cost (In thousands) | U.S. Plans | | International Plans | |
| | 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.

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------|------------------|--------|
| | June 30 | | June 30 | |
| Company Contributions (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.

Table of Contents

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.

18

Table of Contents

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.

Table of Contents

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.

Table of Contents

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:

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

Edgar Filing: HARSCO CORP - Form 10-Q

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 |
|---|----------------------|-----------|---------------------------|----------|

Table of Contents

| (In thousands) | Asset Derivatives | | Liability Derivatives | |
|---|------------------------|------------|---------------------------|------------|
| | Balance Sheet Location | Fair Value | 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) |

Table of Contents

| (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 | — | Retained earnings (b) | (1,520) | | — |
| Interest rate swaps | 5,381 | Interest expense | (235) | | — |
| Cross currency interest rate swaps | — | Interest expense | 648 | | — |
| | \$ 7,160 | | \$ (1,216) | | \$ — |
| Six Months Ended June 30, 2017: | | | | | |
| Foreign currency forward exchange contracts | \$ 763 | Product revenues / Cost of services and products sold | \$ (185) | | \$ — |
| Interest rate swaps | (2,543) | | — | | — |
| Cross currency interest rate swaps | (123) (a) | Interest expense | 493 | Cost of services and products sold | (317) |
| | \$ (1,903) | | \$ 308 | | \$ (317) |

(a) Amounts represent changes in foreign currency translation related to balances in Accumulated other comprehensive loss.

(b) The Company has adopted the new revenue recognition standard utilizing the modified retrospective transition method, including use of practical expedients. See Note 2, Recently Adopted and Recently Issued Accounting Standards for additional information.

Derivatives Not Designated as Hedging Instruments

| (In thousands) | Location of Gain (Loss) Recognized in Income on Derivative | Amount of Gain (Loss) Recognized in Income on Derivative for the Three Months Ended June 30 (d) |
|---|--|---|
| | | 2018 2017 |
| Foreign currency exchange forward contracts | Cost of services and products sold | \$ 15,731 \$ (13,289) |
| (In thousands) | Location of Gain (Loss) Recognized in Income on Derivative | Amount of Gain (Loss) Recognized in Income on Derivative for the Six Months Ended June 30 (d) |
| | | 2018 2017 |
| | Cost of services and products sold | \$ 10,265 \$ (11,739) |

Foreign currency forward exchange contracts

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

Foreign Currency Exchange Forward Contracts

The Company conducts business in multiple currencies and, accordingly, is subject to the inherent risks associated with foreign exchange rate movements. The financial position and results of operations of substantially all of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Foreign currency-denominated assets and liabilities are translated into U.S. dollars at the exchange rates existing at the respective balance sheet dates, and income and expense items are translated at the average exchange rates during the respective periods. The aggregate effects of translating the balance sheets of these subsidiaries are deferred and recorded in Accumulated other comprehensive loss, which is a separate component of equity.

Table of Contents

The Company uses derivative instruments to hedge cash flows related to foreign currency fluctuations. Foreign currency exchange forward contracts outstanding are part of a worldwide program to minimize foreign currency exchange operating income and balance sheet exposure by offsetting foreign currency exposures of certain future payments between the Company and various subsidiaries, suppliers or customers. The unsecured contracts are with major financial institutions. The Company may be exposed to credit loss in the event of non-performance by the contract counterparties. The Company evaluates the creditworthiness of the counterparties and does not expect default by them. Foreign currency exchange forward contracts are used to hedge commitments, such as foreign currency debt, firm purchase commitments and foreign currency cash flows for certain export sales transactions. The following tables summarize, by major currency, the contractual amounts of the Company's foreign currency exchange forward contracts in U.S. dollars. The "Buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the "Sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies. The recognized gains and losses offset amounts recognized in cost of services and products sold principally as a result of intercompany or third party foreign currency exposures.

Contracted Amounts of Foreign Currency Exchange Forward Contracts Outstanding at June 30, 2018:

| (In thousands) | Type | U.S. Dollar Equivalent | Maturity | Recognized Gain (Loss) |
|-------------------------|------|---------------------------|---------------------------------|---------------------------|
| British pounds sterling | Sell | \$ 96,546 | July 2018 through October 2021 | \$ 3,024 |
| British pounds sterling | Buy | 9,590 | July 2018 through January 2019 | (157) |
| Euros | Sell | 306,503 | July 2018 through March 2019 | 8,258 |
| Euros | Buy | 192,929 | July 2018 through November 2018 | (1,435) |
| Other currencies | Sell | 41,096 | July 2018 through December 2018 | 1,296 |
| Other currencies | Buy | 2,901 | July 2018 | (40) |
| Total | | \$ 649,565 | | \$ 10,946 |

Contracted Amounts of Foreign Currency Exchange Forward Contracts Outstanding at December 31, 2017:

| (In thousands) | Type | U.S. Dollar Equivalent | Maturity | Recognized Gain (Loss) |
|-------------------------|------|---------------------------|------------------------------------|---------------------------|
| British pounds sterling | Sell | \$ 76,761 | January 2018 | \$ (769) |
| British pounds sterling | Buy | 5,960 | January 2018 | 72 |
| Euros | Sell | 314,649 | January 2018 through December 2018 | (4,916) |
| Euros | Buy | 223,111 | January 2018 through November 2018 | 4,564 |
| Other currencies | Sell | 39,889 | January 2018 through June 2018 | (1,049) |
| Other currencies | Buy | 11,487 | January 2018 | 219 |
| Total | | \$ 671,857 | | \$ (1,879) |

In addition to foreign currency exchange forward contracts, the Company designates certain loans as hedges of net investments in international subsidiaries. The Company recorded pre-tax net loss of \$16.1 million and \$6.6 million during the three and six months ended June 30, 2018, respectively and pre-tax net gains of \$7.7 million and \$9.5 million for the three and six months ended June 30, 2017, respectively, in Accumulated other comprehensive loss.

Interest Rate Swaps

The Company uses interest rate swaps in conjunction with certain debt issuances in order to secure a fixed interest rate. The interest rate swaps are recorded on the Condensed Consolidated Balance Sheets at fair value, with changes in value attributed to the effect of the swaps' interest spread and changes in the credit worthiness of the counter-parties recorded in Accumulated other comprehensive loss.

In January 2017 and February 2018, the Company entered into a series of interest rate swaps that cover the period from 2018 through 2022, and had the effect of converting \$300.0 million of the Term Loan Facility from floating-rate to fixed-rate beginning in 2018. The fixed rates provided by the swaps replace the adjusted LIBOR rate in the interest

calculation, ranging from 1.65% for 2018 to 3.12% for 2022.

The following table indicates the notional amounts of the Company's interest rate swaps at June 30, 2018:

| (In millions) | Notional Amount | Annual Interest Rates | |
|----------------------------|--------------------|---------------------------|------------------------|
| | | Receive | Pay |
| Maturing 2018 through 2022 | \$ 300.0 | Floating U.S. dollar rate | Fixed U.S. dollar rate |

Table of Contents**Cross-Currency Interest Rate Swaps**

The Company may use CCIRs in conjunction with certain debt issuances in order to secure a fixed local currency interest rate. Under these CCIRs, the Company receives interest based on a fixed or floating U.S. dollar rate and pays interest on a fixed local currency rate based on the contractual amounts in dollars and the local currency, respectively. At maturity, there is also the payment of principal amounts between currencies. The CCIRs are recorded on the Condensed Consolidated Balance Sheets at fair value, with changes in value attributed to the effect of the swaps' interest spread and changes in the credit worthiness of the counter-parties recorded in Accumulated other comprehensive loss. Changes in value attributed to the effect of foreign currency fluctuations are recorded in the Condensed Consolidated Statements of Operations and offset currency fluctuation effects on the debt principal. The Company had no outstanding CCIRs at June 30, 2018.

Fair Value of Derivative Assets and Liabilities and Other Financial Instruments

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

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

The three levels of the fair value hierarchy are described below:

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3—Inputs that are both significant to the fair value measurement and unobservable.

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

The following table indicates the fair value hierarchy of the financial instruments of the Company:

| Level 2 Fair Value Measurements (In thousands) | June 30 2018 | December 31 2017 |
|---|-----------------|---------------------|
| Assets | | |
| Foreign currency exchange forward contracts | \$ 13,750 | \$ 5,244 |
| Interest rate swaps | 4,765 | 634 |
| Liabilities | | |
| Foreign currency exchange forward contracts | 2,804 | 7,123 |
| Interest rate swaps | 353 | 1,368 |

The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs, such as forward rates, interest rates, the Company's credit risk and counterparties' credit risks, and which minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the ability to observe those inputs. Foreign currency exchange forward contracts, interest rate swaps and CCIRs are based

upon pricing models using market-based inputs (Level 2). Model inputs can be verified, and valuation techniques do not involve significant management judgment.

Table of Contents

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and short-term borrowings approximate fair value due to the short-term maturities of these assets and liabilities. At June 30, 2018 and December 31, 2017, the total fair value of long-term debt (excluding deferred financing costs), including current maturities, was \$674.2 million and \$599.1 million, respectively, compared with a carrying value of \$675.1 million and \$593.7 million, respectively. Fair values for debt are based on pricing models using market based inputs (Level 2) for similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

13. Review of Operations by Segment

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30 | | June 30 | |
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Revenues From Continuing Operations | | | | |
| Harsco Metals & Minerals | \$272,320 | \$259,306 | \$537,043 | \$506,340 |
| Harsco Industrial | 92,065 | 73,563 | 175,663 | 139,448 |
| Harsco Rail | 67,552 | 61,994 | 127,230 | 121,582 |
| Corporate | 35 | 35 | 74 | 69 |
| Total Revenues From Continuing Operations | \$431,972 | \$394,898 | \$840,010 | \$767,439 |
| Operating Income From Continuing Operations | | | | |
| Harsco Metals & Minerals | \$35,661 | \$31,464 | \$63,396 | \$57,221 |
| Harsco Industrial | 14,170 | 9,240 | 26,591 | 12,134 |
| Harsco Rail | 8,618 | 8,192 | 10,570 | 14,409 |
| Corporate | (4,824) | (5,747) | (10,391) | (12,008) |
| Total Operating Income From Continuing Operations | \$53,625 | \$43,149 | \$90,166 | \$71,756 |
| Depreciation and Amortization | | | | |
| Harsco Metals & Minerals | \$28,632 | \$27,928 | \$57,717 | \$55,808 |
| Harsco Industrial | 1,882 | 1,843 | 3,737 | 3,683 |
| Harsco Rail | 1,039 | 1,025 | 2,103 | 2,062 |
| Corporate | 1,666 | 1,479 | 3,014 | 2,950 |
| Total Depreciation and Amortization | \$33,219 | \$32,275 | \$66,571 | \$64,503 |
| Capital Expenditures | | | | |
| Harsco Metals & Minerals | \$24,423 | \$21,599 | \$49,599 | \$37,071 |
| Harsco Industrial | 2,916 | 796 | 4,003 | 1,548 |
| Harsco Rail | 2,088 | 1,083 | 2,518 | 1,303 |
| Corporate | 172 | 233 | 376 | 778 |
| Total Capital Expenditures | \$29,599 | \$23,711 | \$56,496 | \$40,700 |

Reconciliation of Segment Operating Income to Income From Continuing Operations Before Income Taxes

| | Three Months | | Six Months Ended | |
|---|--------------|-----------|------------------|-----------|
| | Ended | | June 30 | |
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Segment operating income | \$58,449 | \$48,896 | \$100,557 | \$83,764 |
| General Corporate expense | (4,824) | (5,747) | (10,391) | (12,008) |
| 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) | — |

Edgar Filing: HARSCO CORP - Form 10-Q

Income from continuing operations before income taxes \$44,079 \$30,562 \$72,374 \$47,329

Table of Contents

14. Revenue Recognition

The Company recognizes revenues to depict the transfer of promised services and products to customers in an amount that reflects the consideration the Company expects to receive in exchange for those services or products. Service revenues include the service components of the Harsco Metals & Minerals and Harsco Rail Segments. Product revenues include the Harsco Industrial Segment and the product revenues of the Harsco Metals & Minerals and Harsco Rail Segments.

Harsco Metals & Minerals - This Segment provides on-site services, under long-term contracts, for material logistics; product quality improvement and resource recovery from iron, steel and metals manufacturing; and also manufactures and sells industrial abrasives and roofing granule products.

Service revenues are recognized over time as the customer simultaneously receives the benefits provided by the Company's performance. The Company utilizes an output method based on work performed (liquid steel tons processed, weight of material handled, etc.) to measure progress, which is deemed to best depict the transfer of value to the customer and revenue earned by the Company. Transaction prices are based on contractual terms, which may include both fixed and variable portions. The fixed portion is recognized as earned (normally monthly) over the contractual period. The variable portion is recognized as services are performed and differs based on the volume of services performed. Given the long-term nature of these arrangements, most contracts permit periodic adjustment of either the variable or both the fixed and variable portions based on the changes in macroeconomic indicators, including changes in commodity prices. Transaction prices, when the standalone selling price is not directly observable, are allocated to performance obligations utilizing an expected cost plus a margin approach. Amounts are typically billed and payable on a monthly basis as services are performed.

Product revenues are recognized at the point when control transfers to the customer. Control generally transfers at the point of shipment for domestic orders and in accordance with the international commercial terms included in contracts for export sales. Transaction prices are based on contractual terms, which are generally fixed and when the standalone selling price is not directly observable, allocated to performance obligations utilizing an adjusted market assessment approach. Amounts are billed and payable upon completion of each transaction.

At June 30, 2018, the Harsco Metals & Minerals Segment had remaining, fixed, unsatisfied performance obligations, where the expected contract duration exceeds one year totaling \$139.5 million. Of this amount, \$39.8 million is expected to be fulfilled by June 30, 2019, \$33.1 million by June 30, 2020, \$23.2 million by June 30, 2021, \$17.5 million by June 30, 2022 and the remainder thereafter. These amounts exclude any variable fees, fixed fees subject to indexation and any performance obligations expected to be satisfied within one year. The increase in remaining, fixed, unsatisfied performance obligations, where the expected contract duration exceeds one year is primarily attributable to a new contracts entered into during the second quarter of 2018.

Harsco Industrial - This segment sells air-cooled heat exchangers, metal bar grating configurations and energy-efficient heat transfer products.

For air-cooled heat exchangers, revenue is recognized over time as control is transferred to the customer. Control transfers over time because the air-cooled heat exchangers are customized, have no alternate use and the Company has an enforceable right to payment. The Company utilizes an input method based on costs incurred to measure progress, which is deemed to best depict the transfer of value to the customer and revenue earned by the Company. Transaction prices are based on contractual terms, which are generally fixed, and when the standalone selling price is not directly observable, allocated to performance obligations utilizing an adjusted market assessment approach. The Company may receive periodic payments associated with key milestones with any remaining consideration billed and payable upon completion of the transaction.

For metal bar grating configurations and energy-efficient heat transfer products, revenue is recognized at the point when control transfers to the customer. Control generally transfers at the point of shipment for domestic orders and in accordance with the international commercial terms included in contracts for export sales. Transaction prices are based on contractual terms, which are generally fixed, and when the standalone selling price is not directly observable, allocated to performance obligations utilizing an adjusted market assessment approach. Amounts are billed and payable upon completion of each transaction though advance payments are required in limited circumstances.

Table of Contents

Harsco Rail - This Segment sells railway track maintenance equipment, after-market parts and provides railway track maintenance services.

For the majority of railway track maintenance equipment sales, revenue is recognized at the point when control transfers to the customer. Control generally transfers at the point of shipment for domestic orders and in accordance with the international commercial terms included in contracts for export sales. In certain railway track maintenance equipment sales, revenue is recognized over time because such equipment is highly customized, has no alternate use and the Company has an enforceable right to payment. In such instances, the Company utilizes an input method based on costs incurred to measure progress, which is deemed to best depict the transfer of value to the customer and revenue earned by the Company. Transaction prices are based on contracted terms, which are generally fixed, and when the standalone selling price is not directly observable, allocated to performance obligations utilizing either the adjusted market assessment or expected cost plus a margin approach. For certain transactions, the Company receives periodic payments associated with key milestones. In limited instances, those payments are intended to provide financing with such transactions being treated as including a significant financing component. Any remaining consideration is billed and payable upon completion of the transaction.

For after-market parts sales, revenue is recognized at the point when control transfers to the customer. Control generally transfer to the customer at the point of shipment for domestic orders and in accordance with the international commercial terms included in contracts for export sales. Transaction prices are based on contracted terms, which are generally fixed, and when the standalone selling price is not directly observable, allocated to performance obligations utilizing an adjusted market assessment approach. Amounts are billed and payable upon completion of each contract.

For railway track maintenance services, revenue is recognized over time as the customer simultaneously receives the benefits provided by the Company's performance. The Company utilizes an appropriate output method based on work performed (feet, miles, shifts worked, etc.) to measure progress, which is deemed to best depict the transfer of value to the customer and revenue earned by the Company. Transaction prices are based on contracted terms, which are generally variable. The variable portion is recognized as services are performed and differs based on the value of services. Given the long-term nature of these arrangements, most contracts permit periodic adjustment based on the changes in macroeconomic indicators. Transaction prices, when the standalone selling price is not directly observable, are allocated to performance obligations utilizing an expected cost plus a margin approach. Amounts are typically billed and payable on a monthly basis as services are performed.

At June 30, 2018, the Harsco Rail Segment had remaining, fixed, unsatisfied performance obligations, where the expected contract duration exceeds one year totaling \$204.5 million. Of this amount, \$38.1 million is expected to be fulfilled by

June 30, 2019, \$70.0 million by June 30, 2020, \$57.0 million by June 30, 2021, \$30.1 million by June 30, 2022 and the remainder thereafter. These amounts exclude any variable fees, fixed fees subject to indexation and any performance obligations expected to be satisfied within one year. The increase in remaining, fixed, unsatisfied performance obligations, where the expected contract duration exceeds one year is primarily attributable to new contracts entered into during the second quarter of 2018.

A summary of the Company's revenues by primary geographical markets as well as by key product and service groups is as follows:

| | Three Months Ended | | | | |
|----------------|--------------------|--------------|---------|-----------|--------------|
| | June 30, 2018 | | | | |
| | Harsco | Harsco | Harsco | Corporate | Consolidated |
| (In thousands) | Metals | & Industrial | Rail | Segment | Totals |
| | Minerals | Segment | Segment | | |
| | Segment | | | | |

Edgar Filing: HARSCO CORP - Form 10-Q

Primary Geographical Markets (a):

| | | | | | |
|------------------------|-----------|-----------|-----------|-------|------------|
| North America | \$79,862 | \$ 87,174 | \$47,547 | \$ 35 | \$ 214,618 |
| Western Europe | 97,410 | — | 13,041 | — | 110,451 |
| Latin America (b) | 37,388 | 4,891 | 1,331 | — | 43,610 |
| Asia-Pacific | 37,788 | — | 5,633 | — | 43,421 |
| Middle East and Africa | 12,150 | — | — | — | 12,150 |
| Eastern Europe | 7,722 | — | — | — | 7,722 |
| Total Revenues (c) | \$272,320 | \$ 92,065 | \$ 67,552 | \$ 35 | \$ 431,972 |

28

Table of Contents

| (In thousands) | Three Months Ended June 30, 2018 | | | | |
|--|--|---------------------------------|---------------------------|-----------|------------------------|
| | Harsco Metals & Minerals Segment | Harsco Industrial Segment | Harsco Rail Segment | Corporate | Consolidated Totals |
| Key Product and Service Groups: | | | | | |
| On-site services and material logistics, product quality improvement and resource recovery for iron, steel and metals manufacturing; as well as value-added environmental solutions for industrial co-products | \$272,320 | \$ — | \$ — | \$ — | \$ 272,320 |
| Railway track maintenance services and equipment | — | — | 67,552 | — | 67,552 |
| Air-cooled heat exchangers | — | 48,576 | — | — | 48,576 |
| Industrial grating and fencing products | — | 32,446 | — | — | 32,446 |
| Heat transfer products | — | 11,043 | — | — | 11,043 |
| General Corporate | — | — | — | 35 | 35 |
| Total Revenues (c) | \$272,320 | \$ 92,065 | \$ 67,552 | \$ 35 | \$ 431,972 |
| (In thousands) | Three Months Ended June 30, 2017 | | | | |
| | Harsco Metals & Minerals Segment | Harsco Industrial Segment | Harsco Rail Segment | Corporate | Consolidated Totals |
| Primary Geographical Markets (a): | | | | | |
| North America | \$70,759 | \$ 67,165 | \$ 48,748 | \$ 35 | \$ 186,707 |
| Western Europe | 97,516 | — | 6,832 | — | 104,348 |
| Latin America (b) | 39,758 | 5,308 | 778 | — | 45,844 |
| Asia-Pacific | 34,759 | 1,090 | 5,636 | — | 41,485 |
| Middle East and Africa | 9,953 | — | — | — | 9,953 |
| Eastern Europe | 6,561 | — | — | — | 6,561 |
| Total Revenues (c) | \$259,306 | \$ 73,563 | \$ 61,994 | \$ 35 | \$ 394,898 |
| Key Product and Service Groups: | | | | | |
| On-site services and material logistics, product quality improvement and resource recovery for iron, steel and metals manufacturing; as well as value-added environmental solutions for industrial co-products | \$259,306 | \$ — | \$ — | \$ — | \$ 259,306 |
| Railway track maintenance services and equipment | — | — | 61,994 | — | 61,994 |
| Air-cooled heat exchangers | — | 33,774 | — | — | 33,774 |
| Industrial grating and fencing products | — | 29,134 | — | — | 29,134 |
| Heat transfer products | — | 10,655 | — | — | 10,655 |
| General Corporate | — | — | — | 35 | 35 |
| Total Revenues (c) | \$259,306 | \$ 73,563 | \$ 61,994 | \$ 35 | \$ 394,898 |
| (In thousands) | Six Months Ended June 30, 2018 | | | | |
| | Harsco Metals Segment | Harsco Industrial Segment | Harsco Rail Segment | Corporate | Consolidated Totals |

&
Minerals
Segment

Primary Geographical Markets (a):

| | | | | | |
|------------------------|------------|------------|------------|-------|------------|
| North America | \$ 150,927 | \$ 166,032 | \$ 87,952 | \$ 74 | \$ 404,985 |
| Western Europe | 194,331 | — | 27,761 | — | 222,092 |
| Latin America (b) | 78,846 | 9,631 | 2,164 | — | 90,641 |
| Asia-Pacific | 74,009 | — | 9,353 | — | 83,362 |
| Middle East and Africa | 23,703 | — | — | — | 23,703 |
| Eastern Europe | 15,227 | — | — | — | 15,227 |
| Total Revenues (c) | \$537,043 | \$ 175,663 | \$ 127,230 | \$ 74 | \$ 840,010 |

Table of Contents

| (In thousands) | Six Months Ended June 30, 2018 | | | | Consolidated Totals |
|--|--|---------------------------------|---------------------------|-----------|------------------------|
| | Harsco Metals & Minerals Segment | Harsco Industrial Segment | Harsco Rail Segment | Corporate | |
| Key Product and Service Groups: | | | | | |
| On-site services and material logistics, product quality improvement and resource recovery for iron, steel and metals manufacturing; as well as value-added environmental solutions for industrial co-products | \$ 537,043 | \$ — | \$ — | \$ — | \$ 537,043 |
| Railway track maintenance services and equipment | — | — | 127,230 | — | 127,230 |
| Air-cooled heat exchangers | — | 92,843 | — | — | 92,843 |
| Industrial grating and fencing products | — | 62,543 | — | — | 62,543 |
| Heat transfer products | — | 20,277 | — | — | 20,277 |
| General Corporate | — | — | — | 74 | 74 |
| Total Revenues (c) | \$ 537,043 | \$ 175,663 | \$ 127,230 | \$ 74 | \$ 840,010 |

| (In thousands) | Six Months Ended June 30, 2017 | | | | Consolidated Totals |
|-----------------------------------|--|---------------------------------|---------------------------|-----------|------------------------|
| | Harsco Metals & Minerals Segment | Harsco Industrial Segment | Harsco Rail Segment | Corporate | |
| Primary Geographical Markets (a): | | | | | |
| North America | \$ 137,992 | \$ 125,516 | \$ 93,898 | \$ 69 | \$ 357,475 |
| Western Europe | 189,236 | — | 16,371 | — | 205,607 |
| Latin America (b) | 77,778 | 11,890 | 1,254 | — | 90,922 |
| Asia-Pacific | 67,316 | 2,042 | 10,059 | — | 79,417 |
| Middle East and Africa | 20,509 | — | — | — | 20,509 |
| Eastern Europe | 13,509 | — | — | — | 13,509 |
| Total Revenues (c) | \$ 506,340 | \$ 139,448 | \$ 121,582 | \$ 69 | \$ 767,439 |

| (In thousands) | Six Months Ended June 30, 2017 | | | | Consolidated Totals |
|--|--|---------------------------------|---------------------------|-----------|------------------------|
| | Harsco Metals & Minerals Segment | Harsco Industrial Segment | Harsco Rail Segment | Corporate | |
| Key Product and Service Groups: | | | | | |
| On-site services and material logistics, product quality improvement and resource recovery for iron, steel and metals manufacturing; as well as value-added environmental solutions for industrial co-products | \$ 506,340 | \$ — | \$ — | \$ — | \$ 506,340 |
| Railway track maintenance services and equipment | — | — | 121,582 | — | 121,582 |
| Air-cooled heat exchangers | — | 64,235 | — | — | 64,235 |
| Industrial grating and fencing products | — | 57,293 | — | — | 57,293 |
| Heat transfer products | — | 17,920 | — | — | 17,920 |
| General Corporate | — | — | — | 69 | 69 |
| Total Revenues (c) | \$ 506,340 | \$ 139,448 | \$ 121,582 | \$ 69 | \$ 767,439 |

(a) Revenues are attributed to individual countries based on the location of the facility generating the revenue.

(b) Includes Mexico.

(c) The Company has adopted the new revenue recognition standard utilizing the modified retrospective transition method, including use of practical expedients. Comparative information has not been restated and continues to be reported under U.S. GAAP in effect for those periods. See Note 2, Recently Adopted and Recently Issued

Accounting Standards for additional information.

The Company may receive payments in advance of earning revenue, which are treated as Advances on contracts on the Condensed Consolidated Balance Sheets. The Company may recognize revenue in advance of being able to contractually invoice the customer, which is treated as Contract assets on the Condensed Consolidated Balance Sheet. Contract assets are transferred to Trade accounts receivable, net when right to payment becomes unconditional. Contract assets and Contract liabilities are reported as a net position, on a contract-by-contract basis, at the end of each reporting period. These instances are primarily related to the Harsco Rail Segment and air-cooled heat exchangers business of the Harsco Industrial Segment.

Table of Contents

The following table reflects Contract assets and Advances on contracts:

| (In thousands) | June 30, December | |
|--|-------------------|------------|
| | 2018 | 31, 2017 |
| Contract assets: | | |
| Current portion of contract assets | \$ 18,798 | \$— |
| Contract assets | 3,566 | — |
| Total contract assets | \$22,364 | \$— |
| Advances on contracts: | | |
| Current portion of advances on contracts | \$ 39,559 | \$ 117,958 |
| Advances on contracts | 13,493 | — |
| Total advances on contracts | \$53,052 | \$ 117,958 |

The increase in Contract assets and decrease in Advances on contracts is primarily attributable to the initial adoption of the FASB issued changes related to revenue recognition as well as the Altek acquisition. See Note 2, Recently Adopted and Recently Issued Accounting Standards for additional information.

The Company provides assurance type warranties primarily for product sales in the Harsco Industrial and Harsco Rail Segments. These warranties are typically not priced or negotiated separately (there is no option to separately purchase the warranty) or the warranty does not provide customers with a service in addition to the assurance that the product complies with agreed-upon specifications. Accordingly, such warranties do not represent separate performance obligations. 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 warranties.

The Company has elected to utilize the following practical expedients on an ongoing basis as part of the adoption:

The Company has not adjusted the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers the promised good or services to the customer and when the customer pays for that good or service would be one year or less; and

The Company has elected to exclude disclosures related to unsatisfied performance obligations where the related contract has a duration of one year or less; or where the consideration is entirely variable. Accordingly, the Company's disclosure related to unsatisfied performance obligations is limited to the railway track maintenance equipment in the Harsco Rail Segment and the fixed portion of fees related to metals services in the Harsco Metals & Minerals Segment.

Taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. Additionally, in certain contracts, the Company facilitates shipping and handling activities after control has transferred to the customer. The Company has elected to record all shipping and handling activities as costs to fulfill a contract. In situations where the shipping and handling costs have not been incurred at the time revenue is recognized, the respective shipping and handling costs are accrued.

15. Other (Income) Expenses, Net

The major components of this Condensed Consolidated Statements of Operations caption are as follows:

| | Three Months | Six Months |
|--|--------------|------------|
| | Ended | Ended |

Edgar Filing: HARSCO CORP - Form 10-Q

| (In thousands) | June 30 | | June 30 | |
|------------------------------------|---------|---------|----------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Employee termination benefit costs | \$769 | \$1,695 | \$2,212 | \$2,448 |
| Net gains (a) | (1,097) | (88) | (1,097) | (210) |
| Other costs to exit activities | 100 | 247 | 464 | 347 |
| Impaired asset write-downs | 104 | 281 | 113 | 281 |
| Other | (756) | (63) | (750) | 100 |
| Other (income) expenses, net | \$(880) | \$2,072 | \$942 | \$2,966 |

(a) Net gains result from the sales of redundant properties (primarily land, buildings and related equipment) and non-core assets.

The caption, Other, above includes the adjustment to previously accrued amounts related to Other (income) expenses, net for which the ultimate settlement of such liability was less than previous estimates.

Table of Contents

16. Components of Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is included in the Condensed Consolidated Statements of Equity. The components of Accumulated other comprehensive loss, net of the effect of income taxes, and activity for the six months ended June 30, 2017 and 2018 was as follows:

| (In thousands) | Components of Accumulated Other Comprehensive Income (Loss) - Net of Tax | | | | |
|--|--|--|---|---|-------------|
| | Cumulative Foreign Exchange Translation Adjustments | Effective Portion of Derivatives Designated as Hedging Instruments | Cumulative Unrecognized Actuarial Losses on Pension Obligations | Unrealized Gain (Loss) on Marketable Securities | Total |
| Balance at December 31, 2016 | \$(144,534) | \$ (1,089) | \$ (461,094) | \$ (5) | \$(606,722) |
| Other comprehensive income (loss) before reclassifications | 26,386 | (a)(913) | (b)(19,185) | (a)6 | 6,294 |
| Amounts reclassified from accumulated other comprehensive loss, net of tax | — | 185 | 10,042 | — | 10,227 |
| Total other comprehensive income (loss) | 26,386 | (728) | (9,143) | 6 | 16,521 |
| Other comprehensive loss attributable to noncontrolling interests | (1,534) | — | — | — | (1,534) |
| Other comprehensive income (loss) attributable to Harsco Corporation | 24,852 | (728) | (9,143) | 6 | 14,987 |
| Balance at June 30, 2017 | \$(119,682) | \$ (1,817) | \$ (470,237) | \$ 1 | \$(591,735) |
| (In thousands) | Components of Accumulated Other Comprehensive Income (Loss) - Net of Tax | | | | |
| | Cumulative Foreign Exchange Translation Adjustments | Effective Portion of Derivatives Designated as Hedging Instruments | Cumulative Unrecognized Actuarial Losses on Pension Obligations | Unrealized Gain (Loss) on Marketable Securities | Total |
| Balance at December 31, 2017 | \$(111,567) | \$ 808 | \$ (435,840) | \$ 17 | \$(546,582) |
| Adoption of new accounting standard (c) | — | (1,520) | — | — | (1,520) |
| Balance at January 1, 2018 | (111,567) | (712) | (435,840) | 17 | (548,102) |
| Other comprehensive income (loss) before reclassifications | (36,205) | (a)5,482 | (b)10,015 | (a)(27) | (20,735) |
| Amounts reclassified from accumulated other comprehensive loss, net of tax | — | 97 | 9,611 | — | 9,708 |
| Total other comprehensive income (loss) | (36,205) | 5,579 | 19,626 | (27) | (11,027) |
| Other comprehensive income attributable to noncontrolling interests | 1,240 | — | — | — | 1,240 |
| Other comprehensive income (loss) attributable to Harsco Corporation | (34,965) | 5,579 | 19,626 | (27) | (9,787) |
| Balance at June 30, 2018 | \$(146,532) | \$ 4,867 | \$ (416,214) | \$ (10) | \$(557,889) |

(a) Principally foreign currency fluctuation.

(b) Net change from periodic revaluations.

Represents the opening balance sheet adjustment to retained earnings related to the adoption of the revenue recognition standard adopted by the Company on January 1, 2018. See Note 2, Recently Adopted and Recently Issued Accounting Standards, for additional details.

Table of Contents

Amounts reclassified from accumulated other comprehensive loss are as follows:

| (In thousands) | Three Months Ended | | Six Months Ended | | Affected Caption in the Condensed Consolidated Statements of Operations |
|---|--------------------|--------------|------------------|--------------|---|
| | June 30 2018 | June 30 2017 | June 30 2018 | June 30 2017 | |
| Amortization of cash flow hedging instruments: | | | | | |
| Foreign currency exchange forward contracts | \$103 | \$(189) | \$(109) | \$(189) | Product revenues |
| Foreign currency exchange forward contracts | — | 3 | — | 4 | Cost of services and products sold |
| Cross-currency interest rate swaps | 377 | 251 | 648 | 493 | Interest expense |
| Interest rate swaps | (235) | — | (235) | — | Interest expense |
| Total before tax | 245 | 65 | 304 | 308 | |
| Tax expense | (57) | (29) | (207) | (123) | |
| Total reclassification of cash flow hedging instruments, net of tax | \$188 | \$36 | \$97 | \$185 | |

Amortization of defined benefit pension items (d):

| | | | | | |
|---|---------|---------|----------|----------|--|
| Recognized losses | \$4,992 | \$5,512 | \$10,134 | \$10,979 | Defined benefit pension income (expense) |
| Recognized prior-service costs | (37) | 54 | (76) | 107 | Defined benefit pension income (expense) |
| Settlement/curtailment losses | — | — | 166 | — | Defined benefit pension income (expense) |
| Total before tax | 4,955 | 5,566 | 10,224 | 11,086 | |
| Tax benefit | (288) | (522) | (613) | (1,044) | |
| Total reclassification of defined benefit pension items, net of tax | \$4,667 | \$5,044 | \$9,611 | \$10,042 | |

(d) These accumulated other comprehensive loss components are included in the computation of net periodic pension costs. See Note 8, Employee Benefit Plans, for additional details.

Table of Contents

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

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements as well as the audited consolidated financial statements of Harsco Corporation (the "Company"), including the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 which includes additional information about the Company's critical accounting policies, contractual obligations, practices and the transactions that support the financial results, and provides a more comprehensive summary of the Company's outlook, trends and strategies for 2018 and beyond.

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

Forward-Looking Statements

The nature of the Company's business and the many countries in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In accordance with the "safe harbor" provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, the Company provides the following cautionary remarks regarding important factors that, among others, could cause future results to differ materially from the results contemplated by forward-looking statements, including the expectations and assumptions expressed or implied herein. Forward-looking statements contained herein could include, among other things, statements about management's confidence in and strategies for performance; expectations for new and existing products, technologies and opportunities; and expectations regarding growth, sales, cash flows, and earnings. Forward-looking statements can be identified by the use of such terms as "may," "could," "expect," "anticipate," "intend," "believe," "likely," "estimate," "plan" or other comparable terms.

Factors that could cause actual results to differ, perhaps materially, from those implied by forward-looking statements include, but are not limited to: (1) changes in the worldwide business environment in which the Company operates, including general economic conditions; (2) changes in currency exchange rates, interest rates, commodity and fuel costs and capital costs; (3) changes in the performance of equity and bond markets that could affect, among other things, the valuation of the assets in the Company's pension plans and the accounting for pension assets, liabilities and expenses; (4) changes in governmental laws and regulations, including environmental, occupational health and safety, tax and import tariff standards; (5) market and competitive changes, including pricing pressures, market demand and acceptance for new products, services and technologies; (6) the Company's inability or failure to protect its intellectual property rights from infringement in one or more of the many countries in which the Company operates; (7) failure to effectively prevent, detect or recover from breaches in the Company's cybersecurity infrastructure; (8) unforeseen business disruptions in one or more of the many countries in which the Company operates due to political instability, civil disobedience, armed hostilities, public health issues or other calamities; (9) disruptions associated with labor disputes and increased operating costs associated with union organization; (10) the seasonal nature of the Company's business; (11) the Company's ability to successfully enter into new contracts and complete new acquisitions or strategic ventures in the time-frame contemplated, or at all; (12) the integration of the Company's strategic acquisitions; (13) the amount and timing of repurchases of the Company's common stock, if any; (14) the outcome of any disputes with customers, contractors and subcontractors; (15) the financial condition of the Company's customers, including the ability of customers (especially those that may be highly leveraged and those with inadequate liquidity) to maintain their credit availability; (16) implementation of environmental remediation matters; (17) risk and uncertainty associated with intangible assets; and (18) other risk factors listed from time to time in the Company's SEC reports. A further discussion of these, along with other potential risk factors, can be found in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and Part II, Item 1A, Risk Factors herein. The Company cautions that these factors may not be exhaustive and that many of these factors are beyond the Company's ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty to update forward-looking statements except as may be required by law.

Table of Contents

Executive Overview

The Company is a diversified, multinational provider of industrial services and engineered products serving global industries that are fundamental to worldwide economic growth and infrastructure development. The Company's operations consist of three reportable segments: Harsco Metals & Minerals, Harsco Industrial and Harsco Rail. In general, each of the Company's segments are among the market leaders in their respective sectors. The Harsco Metals & Minerals Segment operates primarily under long-term contracts, providing critical services and support to the steelmaking process; and environmental and zero waste solutions for manufacturing by-products within the metals industry. The Harsco Industrial Segment is a supplier of custom-engineered and manufactured air-cooled heat exchangers that support the processing and distribution of natural gas and downstream refined products; manufactures a full range of metal bar grating configurations, used mainly in industrial flooring, as well as safety and security applications; and also manufactures energy-efficient heat transfer products such as boilers and water heaters, for various commercial and industrial applications. The Harsco Rail Segment is a provider of highly engineered maintenance equipment, after-market parts and safety and diagnostic systems which support railroad and transit customers worldwide. The Company has locations in approximately 30 countries, including the U.S. The Company was incorporated in 1956.

Highlights from the second quarter and six months ended June 30, 2018 included (Refer to the discussion of segment and consolidated results included within Results of Operations below, as well as Liquidity and Capital Resources, for additional information pertaining to the key drivers impacting these highlights):

Revenues for both the second quarter and first six months of 2018 increased approximately 9% compared with the second quarter and first six months of 2017. The primary drivers for these increases were higher demand and volumes across all businesses.

Operating income from continuing operations for the second quarter and first six months of 2018 increased approximately 24% and 26% compared with the second quarter and first six months of 2017. The primary driver for these increases were improved operating results, primarily in the Harsco Industrial Segment and the Harsco Metals & Minerals Segment. In addition, operating results were positively affected by a \$3.2 million adjustment to previously accrued amounts related to the disposal of certain slag material in Latin America due to obtaining the necessary permits.

Diluted earnings per common share from continuing operations attributable to Harsco Corporation for the second quarter and first six months of 2018 were \$0.48 and \$0.70, respectively, an increase of approximately 118% and 106%, respectively, compared with the second quarter and first six months of 2017. The primary drivers for the increase were improved operating results and a decrease in both interest and income tax expense. 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.

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. See Note 4, Acquisitions in Part I, Item 1, Financial Statements.

Looking forward, the Company maintains a positive outlook across all businesses. The Company's view for the remainder of 2018 and beyond is supported by the below factors, which should be considered in the context of other risks, trends and strategies in the Company's Annual Report on Form 10-K for the year ended December 31, 2017:

Markets served by the Harsco Metals & Minerals Segment continued to demonstrate improvement through increased customer steel production and higher commodity volumes and prices. Additionally, the impact of new sites (or contracts), lower operating costs achieved through improvement initiatives and increased contributions from the Company's industrial abrasives, metal additives and roofing granules business are expected to positively impact results

in 2018.

The Harsco Industrial Segment's air-cooled heat exchangers business continues to be positively impacted by fundamental improvements within the energy markets. Bookings for this business have increased significantly in recent quarters. Additionally, increased demand for metal grating and heat transfer products, new product innovations and manufacturing efficiencies are also anticipated to have a positive impact within this segment during 2018.

Continued growth, market penetration and investment within after-market parts and Protran Technology are expected to support improved results in the Harsco Rail Segment. The Company is also anticipating an improvement in demand for original equipment from domestic railroads following a period of decreased demand in recent years.

Corporate spending is now expected to be consistent when compared with 2017, while interest expense is forecasted to decline meaningfully following the repricing of the Company's Senior Secured Credit Facility in both December 2017 and June 2018.

35

Table of Contents

The Company expects its operational effective income tax rate to approximate 26% to 28% in 2018, representing a significant decline relative to 2017 as a result of recent U.S. tax reform.

The Company is also focused on future growth opportunities such as organic growth through higher-return service contract opportunities in attractive markets and investments, such as the recent Altek acquisition, to strengthen the technical and applied product capabilities for the Harsco Metals & Minerals Segment, and strategic investments or possible acquisitions, including in the Harsco Rail and Harsco Industrial Segments, that improve competitive positioning in core growth and technology applications and adjacent markets.

Results of Operations

Segment Results

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|--------------------|---------|------------------|---------|
| | June 30 | 2017 | June 30 | 2017 |
| (In millions, except percentages) | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Harsco Metals & Minerals | \$272.3 | \$259.3 | \$537.0 | \$506.3 |
| Harsco Industrial | 92.1 | 73.6 | 175.7 | 139.4 |
| Harsco Rail | 67.6 | 62.0 | 127.2 | 121.6 |
| Total Revenues | \$432.0 | \$394.9 | \$840.0 | \$767.4 |
| Operating Income (Loss): | | | | |
| Harsco Metals & Minerals | \$35.7 | \$31.5 | \$63.4 | \$57.2 |
| Harsco Industrial | 14.2 | 9.2 | 26.6 | 12.1 |
| Harsco Rail | 8.6 | 8.2 | 10.6 | 14.4 |
| Corporate | (4.8) | (5.7) | (10.4) | (12.0) |
| Total Operating Income: | \$53.6 | \$43.1 | \$90.2 | \$71.8 |
| Operating Margins: | | | | |
| Harsco Metals & Minerals | 13.1 | % 12.1 | % 11.8 | % 11.3 |
| Harsco Industrial | 15.4 | 12.6 | 15.1 | 8.7 |
| Harsco Rail | 12.8 | 13.2 | 8.3 | 11.9 |
| | 12.4 | % 10.9 | % 10.7 | % 9.4 |

Harsco Metals & Minerals Segment:

| | Three Months Ended | Six Months Ended |
|--|--------------------|------------------|
| | June 30, 2018 | June 30, 2018 |
| Significant Effects on Revenues | | |
| (In millions) | | |
| Revenues — 2017 | \$259.3 | \$506.3 |
| Impact of foreign currency translation. | 2.5 | 19.4 |
| Net effects of price/volume changes, primarily attributable to volume changes. | 11.9 | 18.3 |
| Net impact of new and lost contracts (including exited underperforming contracts). | (1.4) | (7.0) |
| Revenues — 2018 | \$272.3 | \$537.0 |

Factors Positively Affecting Operating Income:

Increased global steel production. Overall, steel production by customers under services contracts, including the impact of new and exited contracts, increased by 4% and 3%, respectively, for the second quarter and first six months of 2018 compared with the same periods in the prior year.

The net of new and lost contracts (including exited underperforming contracts) increased operating income during the second quarter and first six months of 2018 compared with the same periods in prior year.

Foreign currency translation increased operating income by approximately \$2 million in first six months of 2018 compared with the same periods in the prior year. There was no meaningful impact of foreign currency translation during the second quarter of 2018.

Operating results for the second quarter and first six months of 2018 were positively affected by a \$3.2 million adjustment to previously accrued amounts related to the disposal of certain slag material in Latin America due to obtaining the necessary permits.

Table of Contents

Factors Negatively Impacting Operating Income:

Moderately higher selling, general and administrative costs due to compensation costs and higher professional fees to support and execute the Company's growth strategies.

Costs associated with the Altek acquisition of approximately \$1 million for both the second quarter and first six months of 2018.

Harsco Industrial Segment:

| Significant Effects on Revenues (In millions) | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2018 |
|--|-------------------------------------|-----------------------------------|
| Revenues — 2017 | \$ 73.6 | \$ 139.4 |
| Net effects of price/volume changes, primarily attributable to volume changes. | 18.7 | 36.0 |
| Impact of foreign currency translation. | (0.2) | 0.3 |
| Revenues — 2018 | \$ 92.1 | \$ 175.7 |

Factors Positively Affecting Operating Income:

Higher overall volumes in the air-cooled heat exchanger business and a favorable product mix, resulting in increased operating income during the second quarter and first six months of 2018 compared with the same periods in prior year.

A favorable sales mix and higher prices led to increased operating income in the industrial grating businesses.

Improved demand and a favorable sales mix led to increased operating income in the heat transfer product businesses.

Factors Negatively Impacting Operating Income:

Moderately higher selling, general and administrative costs resulting primarily from increased commissions due to increased volumes in the air-cooled heat exchanger business.

Harsco Rail Segment:

| Significant Effects on Revenues (In millions) | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2018 |
|---|-------------------------------------|-----------------------------------|
| Revenues — 2017 | \$ 62.0 | \$ 121.6 |
| Net effect of price/volume changes, primarily attributable to volume changes. | 5.3 | 3.6 |
| Impact of foreign currency translation. | 0.3 | 2.0 |
| Revenues — 2018 | \$ 67.6 | \$ 127.2 |

Factors Positively Affecting Operating Income:

A more favorable mix and increased demand for after-market part sales increased operating income during the second quarter and first six months of 2018 compared with the same periods in the prior year.

Decreased selling, general and administrative expenses primarily related to lower commissions and bad debt expense.

Factors Negatively Impacting Operating Income:

•

A less favorable mix of machine sales and lower contract service volumes decreased operating income in the second quarter and first six months of 2018 compared with the same periods in prior.

Additional forward contract loss provision related to the Company's first of two contracts, which is nearing completion, with the federal railway system of Switzerland of \$1.8 million, during the first quarter of 2018, resulting from incurring actual costs to complete in excess of originally estimated costs.

Table of Contents

Consolidated Results

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|----------|
| | June 30 | | June 30 | |
| (In millions, except per share amounts) | 2018 | 2017 | 2018 | 2017 |
| Total revenues | \$432.0 | \$394.9 | \$840.0 | \$767.4 |
| Cost of services and products sold | 318.9 | 294.0 | 630.2 | 582.2 |
| Selling, general and administrative expenses | 58.9 | 54.4 | 116.0 | 108.3 |
| Research and development expenses | 1.4 | 1.3 | 2.7 | 2.2 |
| Other (income) expenses, net | (0.9) | 2.1 | 0.9 | 3.0 |
| Operating income from continuing operations | 53.6 | 43.1 | 90.2 | 71.8 |
| Interest income | 0.6 | 0.5 | 1.1 | 1.0 |
| Interest expense | (10.0) | (12.4) | (19.6) | (24.1) |
| Defined benefit pension income (expense) | 0.9 | (0.7) | 1.7 | (1.4) |
| Loss on early extinguishment of debt | (1.0) | — | (1.0) | — |
| Income tax expense | (1.9) | (11.2) | (10.2) | (17.5) |
| Income from continuing operations | 42.1 | 19.3 | 62.2 | 29.8 |
| Income from discontinued operations | 0.6 | 0.4 | 0.1 | — |
| Net income | 42.7 | 19.7 | 62.3 | 29.9 |
| Total other comprehensive income (loss) | (17.2) | (0.9) | (11.0) | 16.5 |
| Total comprehensive income | 25.5 | 18.9 | 51.3 | 46.4 |
| Diluted earnings per common share from continuing operations attributable to Harsco Corporation common stockholders | 0.48 | 0.22 | 0.70 | 0.34 |
| Effective income tax rate for continuing operations | 4.4 | % 36.8 | % 14.1 | % 36.9 % |

Comparative Analysis of Consolidated Results

Revenues

Revenues for the second quarter of 2018 increased \$37.1 million or 9.4% from the second quarter of 2017. Revenues for the first six months of 2018 increased \$72.6 million or 9.5% from the first six months of 2017. Foreign currency translation increased revenues by approximately \$3 million and \$22 million for the second quarter of 2018 and the first six months of 2018, respectively, compared with the same periods in the prior year. Refer to the segment results discussion above for information pertaining to factors positively affecting and negatively impacting revenues.

Cost of Services and Products Sold

Cost of services and products sold for the second quarter of 2018 increased \$24.9 million or 8.5% from the second quarter of 2017. Cost of services and products sold for the first six months of 2018 increased \$48.0 million or 8.2% from the six months ended June 30, 2017. Changes in cost of services and products sold for the periods presented were attributable to the following significant items:

| (In millions) | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2018 |
|---|----------------------------------|--------------------------------|
| Increased costs due to changes in revenues (exclusive of the effects of foreign currency translation and including fluctuations in commodity costs included in selling prices). | \$ 22.2 | \$ 30.5 |
| Impact of foreign currency translation. | 2.7 | 17.9 |
| Other. | — | (0.4) |
| Total change in cost of services and products sold — 2018 vs. 2017 | \$ 24.9 | \$ 48.0 |

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the second quarter of 2018 increased \$4.5 million or 8.4% from the second quarter of 2017. Selling, general and administrative expenses for the first six months of 2018 increased \$7.7 million or 7.1% from the first six months of 2017. These increases were primarily related to increased compensation; professional fees needed to support and execute the Company's growth strategy; and the impact of foreign currency translation.

Table of Contents

Other (Income) Expenses, Net

This income statement classification includes: certain gains, employee termination benefit costs and other costs to exit activities. Additional information on Other (income) expenses, net is included in Note 15, Other Expenses, Net in Part I, Item 1, Financial Statements.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------------------------|----------------------------------|---------|--------------------------------|---------|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Employee termination benefit costs | \$769 | \$1,695 | \$2,212 | \$2,448 |
| Net gains (a) | (1,097) | (88) | (1,097) | (210) |
| Other costs to exit activities | 100 | 247 | 464 | 347 |
| Impaired asset write-downs | 104 | 281 | 113 | 281 |
| Other | (756) | (63) | (750) | 100 |
| Other (income) expenses, net | \$(880) | \$2,072 | \$942 | \$2,966 |

(a) Net gains result from the sales of redundant properties (primarily land, buildings and related equipment) and non-core assets.

The caption, Other, above includes the adjustment to previously accrued amounts related to Other (income) expenses, net for which the ultimate settlement of such liability was less than previous estimates.

Interest Expense

Interest expense during the second quarter and the first six months of 2018 decreased \$2.4 million and \$4.5 million, compared with the second quarter and the first six months of 2017. The decrease primarily relates to reduced interest rates for the Company's Senior Secured Credit Facility, which was amended in December 2017 and June 2018.

Defined Benefit Pension Income (Expense)

Defined benefit pension income for the second quarter of 2018 was \$0.9 million, compared with defined benefit pension expense of \$0.7 million for the second quarter of 2017. Defined benefit pension income for the first six months of 2018 was \$1.7 million, compared with defined benefit pension expense of \$1.4 million for the first six months of 2017. The change primarily relates to improved returns on pension plan assets.

Loss on Early Extinguishment of Debt

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, 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. See Note 7, Debt and Credit Agreements in Part I, Item 1, Financial Statements.

Income Tax Expense

Income tax expense related to continuing operations for the second quarter and six months ended June 30, 2018 was \$1.9 million and \$10.2 million, respectively, compared with an income tax expense related to continuing operations of \$11.2 million and \$17.5 million, respectively, for the second quarter and the first six months of 2017. 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.

Income from Continuing Operations

Income from continuing operations was \$42.1 million and \$62.2 million, respectively, in the second quarter and first six months of 2018 compared with \$19.3 million and \$29.8 million, respectively, in the second quarter and first six months of 2017. These change are primarily related to improved demand for air-cooled heat exchangers in the Harsco

Industrial Segment; decreased interest expense resulting from lower interest rates associated with the Company's Senior Secured Credit Facility; and lower income tax expense.

Total Other Comprehensive Income (Loss)

Total other comprehensive loss was \$17.2 million and \$11.0 million in the second quarter and first six months of 2018, compared with total other comprehensive loss of \$0.9 million and total other comprehensive income of \$16.5 million, respectively in the second quarter and first six months of 2017. The primary driver of this change was the net unfavorable impact of foreign currency translation due to the strengthening of the U.S. dollar against multiple currencies during the first six months of 2018.

Table of Contents

Liquidity and Capital Resources

Cash Flow Summary

The Company has sufficient financial liquidity and borrowing capacity to support the strategies within each of its businesses. The Company currently expects operational and business needs to be met by cash provided by operations supplemented with borrowings from time to time due to historical patterns of seasonal cash flow and for the funding of various projects. The Company regularly assesses capital needs in the context of operational trends and strategic initiatives.

The Company's cash flows from operating, investing and financing activities, as reflected in the Condensed Consolidated Statements of Cash Flows, are summarized in the following table:

| (In millions) | Six Months Ended June 30 | |
|---|--------------------------------|---------|
| | 2018 | 2017 |
| Net cash provided (used) by: | | |
| Operating activities | \$46.7 | \$46.8 |
| Investing activities | (112.7) | (35.0) |
| Financing activities | 70.6 | (23.9) |
| Effect of exchange rate changes on cash and cash equivalents, including restricted cash | (3.7) | 3.0 |
| Net change in cash and cash equivalents, including restricted cash | \$0.9 | \$(9.1) |

Cash provided by operating activities — Net cash provided by operating activities in the first six months of 2018 was \$46.7 million, a decrease of \$0.1 million from cash used by operating activities in the first six months of 2017. The minor decrease is primarily attributable to increased net working capital and the change in other assets and liabilities partially offset by an increase in cash net income. For net working capital, favorable timing of collections in accounts receivable were offset by payments of accrued compensation and lower customer advances in the Harsco Rail segment. The change in other assets and liabilities was due principally to the settlement of various accrued amounts.

Cash used by investing activities — Net cash used by investing activities in the first six months of 2018 was \$112.7 million, an increase of \$77.7 million from the cash used by investing activities in the first six months of 2017. The increase was primarily due to the Altek acquisition and an increase in capital expenditures, primarily in the Company's Harsco Metals & Minerals Segment in the six months ended June 30, 2018, compared with the six months ended June 30, 2017.

Cash provided (used) by financing activities — Net cash provided by financing activities in the first six months of 2018 was \$70.6 million, an increase of \$94.5 million from cash used by financing activities in the first six months of 2017. The change was primarily due to net cash borrowings of \$78.7 million in the first six months of 2018 compared with net cash payments of \$20.4 million in the first six months of 2017. The increased borrowings were used to fund the Altek acquisition and the increased capital spending in the Harsco Metals & Minerals Segment.

Sources and Uses of Cash

The Company's principal sources of liquidity are cash provided by operations and borrowings under the Senior Secured Credit Facility, augmented by cash proceeds from asset sales. In addition, the Company has other bank credit facilities available throughout the world. The Company expects to continue to utilize all of these sources to meet future cash requirements for operations and growth initiatives.

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.

Table of Contents

| | | |
|---|----------|-------------|
| Summary of Senior Secured Credit Facility Borrowings: | June 30 | December 31 |
| (In millions) | 2018 | 2017 |
| By type: | | |
| Revolving Credit Facility | \$ 127.0 | \$ 41.0 |
| Term Loan Facility | 544.5 | 545.9 |
| Total | \$ 671.5 | \$ 586.9 |
| By classification: | | |
| Current | \$ 5.4 | \$ 5.5 |
| Long-term | 666.1 | 581.4 |
| Total | \$ 671.5 | \$ 586.9 |

| | | | | |
|--------------------------------------|----------------|---------------------|-------------------------------|------------------|
| | June 30, 2018 | | | |
| (In millions) | Facility Limit | Outstanding Balance | Outstanding Letters of Credit | Available Credit |
| Multi-year revolving credit facility | \$ 500.0 | \$ 127.0 | \$ 31.4 | \$ 341.6 |

The Company plans to redeploy discretionary cash on a disciplined basis for potential growth opportunities, such as organic growth through higher-return service contract opportunities in attractive markets and investments to strengthen the technical and applied product capabilities for the Harsco Metals & Minerals Segment, and strategic investments or possible acquisitions including in the Harsco Rail and Harsco Industrial Segments that improve competitive positioning in core growth and technology applications and adjacent markets.

On May 2, 2018 the Company announced that the Board of Directors authorized a share repurchase program pursuant to which the Company could repurchase shares in an amount up to \$75 million. The extent to which the Company repurchases shares, and the timing of such repurchases, will depend upon a variety of factors including market conditions and other corporate considerations as determined by the Company's management. The repurchase program may be suspended or discontinued at any time.

Debt Covenants

The Senior Secured Credit Facility contains a consolidated net debt to consolidated adjusted earnings before interest, tax depreciation and amortization ("EBITDA") ratio covenant, which is not to exceed 3.75 to 1.0, and a minimum consolidated adjusted EBITDA to consolidated interest charges ratio covenant, which is not to be less than 3.0 to 1.0. The consolidated net debt to consolidated adjusted EBITDA ratio covenant is reduced to 3.5 to 1.0 after December 31, 2018. At June 30, 2018, the Company was in compliance with these covenants, as the total net leverage ratio was 2.0 to 1.0 and total interest coverage ratio was 7.1 to 1.0. Based on balances and covenants in effect at June 30, 2018, the Company could increase net debt by \$537.7 million, and still be in compliance with these debt covenants.

Alternatively, keeping all other factors constant, the Company's adjusted EBITDA could decrease by \$143.4 million and the Company would still be within these debt covenants. The Company expects to continue to be in compliance with these debt covenants for at least the next twelve months. In addition, the Senior Secured Credit Facility imposes certain restrictions including, but not limited to, restrictions as to the types and amounts of debt or liens that may be incurred by the Company, limitations on dividend payments and certain acquisitions by the Company.

Cash Management

The Company has various cash management systems throughout the world that centralize cash in various bank accounts where it is economically justifiable and legally permissible to do so. These centralized cash balances are then redeployed to other operations to reduce short-term borrowings and to finance working capital needs or capital expenditures. Due to the transitory nature of cash balances, they are normally invested in bank deposits that can be withdrawn at will or in very liquid short-term bank time deposits and government obligations. The Company's policy is to use the largest banks in the various countries in which the Company operates. The Company monitors the

creditworthiness of banks and when appropriate will adjust banking operations to reduce or eliminate exposure to less creditworthy banks. The Company plans to continue the strategy of targeted, prudent investing for strategic purposes for the foreseeable future, and to make more efficient use of existing investments.

Table of Contents

At June 30, 2018, the Company's consolidated cash and cash equivalents included \$62.9 million held by non-U.S. subsidiaries. At June 30, 2018, approximately 2% of the Company's consolidated cash and cash equivalents had regulatory restrictions that would preclude the transfer of funds with and among subsidiaries. Non-U.S. subsidiaries also held \$14.0 million of cash and cash equivalents in consolidated strategic ventures. The strategic venture agreements may require strategic venture partner approval to transfer funds with and among subsidiaries. While the Company's remaining non-U.S. cash and cash equivalents can be transferred with and among subsidiaries, the majority of these non-U.S. cash balances will be used to support the ongoing working capital needs and continued growth of the Company's non-U.S. operations.

Recently Adopted and Recently Issued Accounting Standards

Information on recently adopted and recently issued accounting standards is included in Note 2, Recently Adopted and Recently Issued Accounting Standards, in Part I, Item 1, Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks have not changed significantly from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

The Company's adoption of ASC 606, Revenue from Contracts with Customers, required the implementation of new accounting processes, which changed the Company's internal controls over revenue recognition. The Company has completed the design of these controls and they have been implemented as of June 30, 2018. Other than these changes, there have been no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the second quarter of 2018.

Based on the evaluation required by Securities Exchange Act Rules 13a-15(b) and 15d-15(b), the Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), at June 30, 2018. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective at June 30, 2018.

Table of Contents

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information on legal proceedings is included in Note 10, Commitments and Contingencies, in Part I, Item 1, Financial Statements.

ITEM 1A. RISK FACTORS

The Company's risk factors as of June 30, 2018 have not changed materially from those described in Part 1, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 2, 2018, the Company announced that the Board of Directors adopted a share repurchase program authorizing the Company to repurchase up to \$75,000,000 of outstanding shares of the Company's common stock through April 24, 2021. The Company did not purchase any shares of common stock under this program during the quarter ended June 30, 2018. When and if appropriate, repurchases are made in open market transactions, depending on market conditions. Share repurchases may not occur and may be discontinued at any time.

ITEM 6. EXHIBITS

The following exhibits are included as part of this report by reference:

| Exhibit Number | Description |
|-------------------|---|
| <u>10.1</u> | Amendment No. 2, dated as of June 18, 2018, among the Company, the subsidiaries of the Company party thereto, Citibank N.A., as administrative agent and collateral agent and the lenders party thereto (incorporated by reference to the Company's Current Report on Form 8-K dated June 21, 2018). |
| <u>10.2</u> | Amendment No. 3, dated as of June 18, 2018, among the Company, the subsidiaries of the Company party thereto, Citibank N.A., as administrative agent and collateral agent and the lenders party thereto (incorporated by reference to the Company's Current Report on Form 8-K dated June 21, 2018). |
| <u>31.1</u> | Certification Pursuant to Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer). |
| <u>31.2</u> | Certification Pursuant to Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer). |
| <u>32</u> | Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer). |
| 101 | The following financial statements from Harsco Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 filed with the Securities and Exchange Commission on August 2, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Comprehensive Income; (iv) the Condensed Consolidated Statements of Cash Flows; (v) the Condensed Consolidated Statements of Equity; and (vi) the Notes to Condensed Consolidated Financial Statements. |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARSCO CORPORATION
(Registrant)

DATE August 2, 2018 /s/ PETER F. MINAN
Peter F. Minan
Senior Vice President and Chief Financial Officer
(On behalf of the registrant and as Principal Financial Officer)

DATE August 2, 2018 /s/ SAMUEL C. FENICE
Samuel C. Fenice
Vice President and Corporate Controller
(Principal Accounting Officer)