HARSCO CORP
Form 10-Q
May 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended March 31, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-03970
HARSCO CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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

Class	Outstanding at April 28, 2017
Common stock, par value $1.25 per share	80,191,560

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	March 31 2017	December 31 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$64,429	$71,879
Trade accounts receivable, net	267,999	236,554
Other receivables	21,192	21,053
Inventories	190,431	187,681
Other current assets	34,203	33,108
Total current assets	578,254	550,275
Property, plant and equipment, net	483,271	490,255
Goodwill	384,812	382,251
Intangible assets, net	40,469	41,567
Deferred income tax assets	106,926	106,311
Other assets	12,702	10,679
Total assets	$1,606,434	$1,581,338
LIABILITIES		
Current liabilities:		
Short-term borrowings	$7,875	$4,259
Current maturities of long-term debt	18,690	25,574
Accounts payable	108,551	107,954
Accrued compensation	35,238	46,658
Income taxes payable	6,582	4,301
Insurance liabilities	11,916	11,850
Advances on contracts and other customer advances	113,949	117,329
Other current liabilities	112,714	109,748
Total current liabilities	415,515	427,673
Long-term debt	646,632	629,239
Insurance liabilities	25,102	25,265
Retirement plan liabilities	308,711	319,597
Other liabilities	41,941	42,001
Total liabilities	1,437,901	1,443,775
COMMITMENTS AND CONTINGENCIES		
HARSCO CORPORATION STOCKHOLDERS’ EQUITY		
Preferred stock	—	—
Common stock	140,639	140,625
Additional paid-in capital	176,297	172,101
Accumulated other comprehensive loss	(589,723)	(606,722)
Retained earnings	1,158,869	1,150,688
Treasury stock	(760,444)	(760,391)
Total Harsco Corporation stockholders’ equity	125,638	96,301
Noncontrolling interests	42,895	41,262
Total equity	168,533	137,563

Total liabilities and equity	$1,606,434	$1,581,338

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31	
(In thousands, except per share amounts)	2017	2016
Revenues from continuing operations:		
Service revenues	$240,609	$225,494
Product revenues	131,932	127,787
Total revenues	372,541	353,281
Costs and expenses from continuing operations:		
Cost of services sold	188,901	189,817
Cost of products sold	98,866	93,244
Selling, general and administrative expenses	55,141	50,784
Research and development expenses	831	882
Other expenses	894	9,123
Total costs and expenses	344,633	343,850
Operating income from continuing operations	27,908	9,431
Interest income	512	535
Interest expense	(11,653)	(12,363)
Change in fair value to the unit adjustment liability and loss on dilution of equity method investment	—	(12,217)
Income (loss) from continuing operations before income taxes and equity income	16,767	(14,614)
Income tax (expense) benefit	(6,253)	2,166
Equity income of unconsolidated entities, net	—	3,175
Income (loss) from continuing operations	10,514	(9,273)
Discontinued operations:		
Loss on disposal of discontinued business	(588)	(506)
Income tax benefit related to discontinued business	211	187
Loss from discontinued operations	(377)	(319)
Net income (loss)	10,137	(9,592)
Less: Net income attributable to noncontrolling interests	(1,247)	(1,277)
Net income (loss) attributable to Harsco Corporation	$8,890	$(10,869)
Amounts attributable to Harsco Corporation common stockholders:		
Income (loss) from continuing operations, net of tax	$9,267	$(10,550)
Loss from discontinued operations, net of tax	(377)	(319)
Net income (loss) attributable to Harsco Corporation common stockholders	$8,890	$(10,869)
Weighted-average shares of common stock outstanding	80,385	80,238
Basic earnings (loss) per common share attributable to Harsco Corporation common stockholders:		
Continuing operations	$0.12	$(0.13)
Discontinued operations	—	—
Basic earnings (loss) per share attributable to Harsco Corporation common stockholders	$0.11 (a)	$(0.14) (a)
Diluted weighted-average shares of common stock outstanding	82,263	80,238
Diluted earnings (loss) per common share attributable to Harsco Corporation common stockholders:		
Continuing operations	$0.11	$(0.13)
Discontinued operations	—	—
Diluted earnings (loss) per share attributable to Harsco Corporation common stockholders	$0.11	$(0.14) (a)

(a) Does not total due to rounding

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31	
(In thousands)	2017	2016
Net income (loss)	$10,137	$(9,592)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of $393 and $(3,577) in 2017 and 2016, respectively	16,561	11,621
Net loss on cash flow hedging instruments, net of deferred income taxes of $256 and $14 in 2017 and 2016, respectively	(387)	(2,407)
Pension liability adjustments, net of deferred income taxes of $(522) and $(685) in 2017 and 2016, respectively	1,205	10,440
Unrealized gain (loss) on marketable securities, net of deferred income taxes of $(3) and $4 in 2017 and 2016, respectively	6	(7)
Total other comprehensive income	17,385	19,647
Total comprehensive income	27,522	10,055
Less: Comprehensive income attributable to noncontrolling interests	(1,633)	(1,548)
Comprehensive income attributable to Harsco Corporation	$25,889	$8,507

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31	
(In thousands)	2017	2016
Cash flows from operating activities:		
Net income (loss)	$10,137	$(9,592)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	30,207	33,081
Amortization	2,021	2,964
Change in fair value to the unit adjustment liability and loss on dilution of equity method investment	—	12,217
Deferred income tax benefit	(221)	(567)
Equity in income of unconsolidated entities, net	—	(3,175)
Dividends from unconsolidated entities	19	16
Other, net	5,131	(9,875)
Changes in assets and liabilities:		
Accounts receivable	(27,882)	15,952
Inventories	(755)	(12,408)
Accounts payable	(541)	(15,851)
Accrued interest payable	286	6,668
Accrued compensation	(12,352)	(3,777)
Advances on contracts and other customer advances	(4,998)	(8,995)
Retirement plan liabilities, net	(8,381)	(10,238)
Other assets and liabilities	1,205	605
Net cash used by operating activities	(6,124)	(2,975)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(16,989)	(16,951)
Proceeds from sales of assets	1,006	2,819
Purchases of businesses, net of cash acquired	—	(26)
Other investing activities, net	33	5,427
Net cash used by investing activities	(15,950)	(8,731)
Cash flows from financing activities:		
Short-term borrowings, net	3,655	(366)
Current maturities and long-term debt:		
Additions	24,000	29,010
Reductions	(14,345)	(42,921)
Cash dividends paid on common stock	—	(4,105)
Stock-based compensation - Employee taxes paid	(53)	—
Proceeds from cross-currency interest rate swap termination	—	16,625
Deferred financing costs	(36)	(894)
Net cash provided (used) by financing activities	13,221	(2,651)
Effect of exchange rate changes on cash	1,403	5,006
Net decrease in cash and cash equivalents	(7,450)	(9,351)
Cash and cash equivalents at beginning of period	71,879	79,756

Cash and cash equivalents at end of period	$64,429	$70,405

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

	Harsco Corporation Stockholders' Equity						
	Common Stock						
(In thousands, except share amounts)	Issued	Treasury	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balances, January 1, 2016	$140,503	$(760,299)	$170,699	$1,236,355	$(515,688)	$39,233	$310,803
Net income (loss)				(10,869)		1,277	(9,592)
Total other comprehensive income, net of deferred income taxes of $(4,244)					19,376	271	19,647
Amortization of unearned portion of stock-based compensation, net of forfeitures			1,475				1,475
Balances, March 31, 2016	$140,503	$(760,299)	$172,174	$1,225,486	$(496,312)	$40,781	$322,333

	Harsco Corporation Stockholders' Equity						
	Common Stock						
(In thousands)	Issued	Treasury	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balances, January 1, 2017	$140,625	$(760,391)	$172,101	$1,150,688	$(606,722)	$41,262	$137,563
Net income				8,890		1,247	10,137
Adoption of new accounting standard (See Note 2)			1,106	(709)			397
Total other comprehensive income, net of deferred income taxes of $124					16,999	386	17,385
Vesting of restricted stock units and other stock grants, net 7,254 shares	14	(53)	(14)				(53)
Amortization of unearned portion of stock-based compensation, net of forfeitures			3,104				3,104
Balances, March 31, 2017	$140,639	$(760,444)	$176,297	$1,158,869	$(589,723)	$42,895	$168,533

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

Harsco Corporation (the "Company") has prepared these unaudited condensed consolidated financial statements based on Securities and Exchange Commission rules that permit reduced disclosure for interim periods. In the opinion of management, all adjustments (all of which are of a normal recurring nature) that are necessary for a fair statement are reflected in the unaudited condensed consolidated financial statements. The December 31, 2016 Condensed Consolidated Balance Sheet information contained in this Quarterly Report on Form 10-Q was derived from the 2016 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. ("U.S. GAAP") for an annual report. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Operating results and cash flows for the three months ended March 31, 2017 are not indicative of the results that may be expected for the year ending December 31, 2017.

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 2017:

On January 1, 2017, the Company adopted changes issued by the Financial Accounting Standards Board ("FASB") related to the simplification of the measurement of inventory. The changes required entities to measure most inventory at the lower of cost and net realizable value, thereby simplifying the previous guidance under which an entity must measure inventory at the lower of cost or market. The changes did not apply to inventories that are measured using either the last-in, first-out method or the retail inventory method. The adoption of these changes did not have an impact on the Company's condensed consolidated financial statements.

On January 1, 2017, the Company adopted changes issued by the FASB that required deferred tax assets and liabilities to be classified as non-current in a classified statement of financial position. The changes applied to all entities that present a classified statement of financial position. The requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount was not affected. The adoption of these changes resulted in the Company reclassifying approximately $27 million from reported current assets to Deferred income tax assets based on balances at December 31, 2016.

On January 1, 2017, the Company adopted changes issued by the FASB amending the accounting for stock-based compensation and requiring excess tax benefits and shortfalls to be recognized as a component of income tax expense rather than equity. These changes also required excess tax benefits and shortfalls to be presented as an operating activity on the Condensed Consolidated Statement of Cash Flows and allowed an entity to make an accounting policy election to either estimate expected forfeitures or to account for them as they occur. These changes resulted in the Company recording the cumulative impact of approximately $1 million pre-tax on January 1, 2017 to retained earnings, related to the Company electing to not estimate forfeitures on stock compensation plans but rather recognize forfeitures as they occur. The inclusion of excess tax benefits and shortfalls as a component of the Company’s income tax expense will increase volatility within the provision for income taxes as the amount of excess tax benefits or deficiencies from stock-based compensation awards are dependent on the Company's stock price at the date an award vests. The impact to income tax expense resulting from this change was not material for the first three months of 2017.

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

In May 2014, the FASB issued changes related to the recognition of revenue from contracts with customers. The changes clarify the principles for recognizing revenue and develop a common revenue standard. The core principle of the changes is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The changes also require additional disclosures related to revenue recognition. In July 2015, the FASB deferred the effective date of these changes by one year, but will permit entities to adopt one year earlier. During 2016, the FASB clarified the implementation guidance for principal versus agent considerations; identifying performance obligations; accounting for intellectual property

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licenses; collectability; non-cash consideration; and the presentation of sales and other similar taxes. The FASB also introduced practical expedients related to disclosures of remaining performance obligations and other technical corrections and improvements. These changes become effective for the Company on January 1, 2018. Management is currently finalizing its evaluation, but currently believes the most significant impact will be with regard to the timing of revenue recognition associated with the air-cooled heat exchanger business of the Harsco Industrial Segment and limited equipment sales in the Harsco Rail Segment. The Company currently recognizes revenues on such arrangements upon the completion of the efforts associated with these arrangements, but as a result of these changes, revenue from these arrangements will be recognized over time and increase revenue in earlier periods. Management does not currently believe that there will be any significant impact with regards to the timing of revenue recognition associated with the Harsco Metals & Minerals Segment or the industrial grating and fencing or heat transfer businesses of the Harsco Industrial Segment, but continues to evaluate the effect of these changes. The Company will adopt the standard using the modified retrospective method of implementation with the cumulative effect of initially applying the changes recognized in retained earnings at the date of initial application.

In February 2016, the FASB issued changes in accounting for leases. The changes introduce a lessee model that brings most leases onto the balance sheet. 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 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.

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 current practice.

In March 2017, the FASB issued changes 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. An employer will be 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 allows only the service cost component to be eligible for capitalization. The changes become effective for the Company on January 1, 2018. Management is currently evaluating the impact of these changes on its condensed consolidated financial statements.

3. Accounts Receivable and Inventories

Accounts receivable consist of the following:

(In thousands)	March 31 2017	December 31 2016
Trade accounts receivable	$279,800	$ 248,354

Less: Allowance for doubtful accounts	(11,801)	(11,800)
Trade accounts receivable, net	$267,999	$ 236,554
Other receivables (a)	$21,192	$ 21,053

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

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

	Three Months Ended March 31	
(In thousands)	2017	2016
Provision (benefit) for doubtful accounts related to trade accounts receivable	$(22)	$(146)

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Inventories consist of the following:

(In thousands)	March 31 2017	December 31 2016
Finished goods	$23,175	$ 26,464
Work-in-process	18,172	22,815
Contracts-in-process	65,693	54,044
Raw materials and purchased parts	58,987	61,450
Stores and supplies	24,404	22,908
Total inventories	$190,431	$ 187,681

Contracts-in-process consist of the following:

(In thousands)	March 31 2017	December 31 2016
Contract costs accumulated to date	$98,240	$ 90,276
Estimated forward loss provisions for contracts-in-process (b)	(32,547)	(36,232)
Contracts-in-process (c)	$65,693	$ 54,044

(b) 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. At March 31, 2017 and December 31, 2016 this amount totaled $6.8 million and $6.7 million, respectively.

(c) At March 31, 2017 and December 31, 2016, the Company has $102.5 million and $101.1 million, respectively, of customer advances related to contracts-in-process. These amounts are included in the caption Advances on contracts and other customer advances on the Condensed Consolidated Balance Sheets.

The Company recognized an 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 in Costs of products sold on the Condensed Consolidated Statements of Operations. There was no additional estimated forward loss provision recognized for the three months ended March 31, 2017. 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 March 31, 2017.

The Company did not recognize any revenue for the contracts with SBB for the three months ended March 31, 2017 and 2016, respectively, under the percentage-of-completion (units-of-delivery) method and accordingly, there was no impact on the Company's gross margins or results of operations for these periods. The Company has not yet recognized any revenue associated with the major equipment deliveries under the contracts with SBB. The majority of the equipment deliveries and related revenue recognition under these contracts are expected through 2020.

4. Equity Method Investments

In November 2013, the Company sold the Company's Harsco Infrastructure Segment into a strategic venture with Clayton, Dubilier & Rice ("CD&R") as part of a transaction that combined the Harsco Infrastructure Segment with Brand Energy & Infrastructure Services, Inc., which CD&R simultaneously acquired (the "Infrastructure Transaction"). As a result of the Infrastructure Transaction, the Company retained an equity interest in Brand Energy & Infrastructure Service, Inc. and Subsidiaries ("Brand" or the "Infrastructure strategic venture") which was accounted for as an equity method investment in accordance with U.S. GAAP.

As part of the Infrastructure Transaction, the Company was required to make a quarterly payment to the Company's partner in the Infrastructure strategic venture, either (at the Company's election) (i) in cash, with total payments to equal approximately $22 million per year on a pre-tax basis (approximately $15 million per year after-tax), or (ii) in kind, through the transfer of approximately 3% of the Company's ownership interest in the Infrastructure strategic venture on an annual basis (the "unit adjustment liability"). The Company recognized the change in fair value to the unit adjustment liability each period until the Company was no longer required to make these payments or chose not to make these payments. The change in fair value to the unit adjustment liability was a non-cash expense.

In March 2016, the Company elected not to make the quarterly cash payments to the Company's partner in the Infrastructure strategic venture for the remainder of 2016. Instead, the Company transferred approximately 3% of its ownership interest in satisfaction of the Company's 2016 obligation related to the unit adjustment liability. As a result of not making the quarterly cash payments for 2016, the Company's ownership interest in the Infrastructure strategic venture decreased by approximately

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3% and the value of the unit adjustment liability was updated to reflect this change. Accordingly, the book value of the Company's equity method investment in Brand decreased by $29.4 million and the unit adjustment liability decreased by
$19.1 million. The resulting net loss of $10.3 million was recognized in Change in fair value to the unit adjustment liability and loss on dilution of equity method investment on the Condensed Consolidated Statement of Operations. This net loss was a non-cash expense.

For the three months ended March 31, 2016 the Company recognized $1.9 million of change in fair value to the unit adjustment liability exclusive of the fair value adjustment resulting from the decision not to make the quarterly payments in 2016, in the Condensed Consolidated Statement of Operations caption Change in fair value to the unit adjustment liability and loss on dilution of equity method investment.

In September 2016, the Company sold its remaining approximate 26% interest in Brand. Accordingly, there has been no activity related to Brand subsequent to the date of sale.

The Company's proportionate share of Brand's net income was recorded one quarter in arrears. Accordingly, Brand's results of operations for the three months ended December 31, 2015 were utilized by the Company to record its proportional share of income in the first quarter of 2016. There was no equity income recorded for Brand in the first quarter of 2017 due to the sale of the interest in Brand. Brand's results of operations are summarized as follows:

(In thousands)	Three Months Ended December 31 2015
Net revenues	$ 800,752
Gross profit	180,577
Net income attributable to Brand Energy & Infrastructure Services, Inc. and Subsidiaries	11,060
Harsco's equity in income of Brand	3,175

5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	March 31 2017	December 31 2016
Land	$ 10,707	$ 10,606
Land improvements	15,233	15,032
Buildings and improvements	187,435	185,657
Machinery and equipment	1,559,320	1,525,156
Uncompleted construction	19,039	21,035
Gross property, plant and equipment	1,791,734	1,757,486
Less: Accumulated depreciation	(1,308,463)	(1,267,231)
Property, plant and equipment, net	$ 483,271	$ 490,255

6. Goodwill and Other Intangible Assets

The following table reflects the changes in carrying amounts of goodwill by segment for the three months ended March 31, 2017:

(In thousands)	Consolidated

	Harsco Metals & Minerals Segment	Harsco Industrial Segment	Harsco Rail Segment	Totals
Balance at December 31, 2016	$362,386	$ 6,839	$13,026	$ 382,251
Foreign currency translation	2,561	—	—	2,561
Balance at March 31, 2017	$364,947	$ 6,839	$13,026	$ 384,812

The Company’s 2016 annual goodwill impairment testing did not result in any impairment of the Company’s goodwill. The fair value of the Harsco Metals & Minerals Segment exceeded the carrying value by approximately 12%. 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 March 31, 2017, no interim goodwill impairment testing was necessary.

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Intangible assets included in the captions, Other current assets and Intangible assets, net, on the Condensed Consolidated Balance Sheets consist of the following:

(In thousands)	March 31, 2017 Gross Carrying Amount	March 31, 2017 Accumulated Amortization	December 31, 2016 Gross Carrying Amount	December 31, 2016 Accumulated Amortization
Customer related	$147,784	$ 114,386	$146,840	$ 112,610
Patents	5,750	5,606	5,729	5,534
Technology related	25,739	25,711	25,687	25,634
Trade names	8,308	4,607	8,306	4,529
Other	8,546	5,348	8,512	5,200
Total	$196,127	$ 155,658	$195,074	$ 153,507

Amortization expense for intangible assets was as follows:

	Three Months Ended March 31	
(In thousands)	2017	2016
Amortization expense for intangible assets	$1,318	$2,105

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

(In thousands)	2017	2018	2019	2020	2021
Estimated amortization expense (a)	$5,000	$4,750	$4,500	$4,250	$4,000

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

7. Employee Benefit Plans

	Three Months Ended March 31			
Defined Benefit Pension Plans Net Periodic Pension Cost	U.S. Plans		International Plans	
(In thousands)	2017	2016	2017	2016
Service costs	$942	$946	$ 411	$ 404
Interest cost	2,469	2,545	5,734	7,123
Expected return on plan assets	(3,552)	(3,601)	(10,424)	(11,463)
Recognized prior service costs	8	16	45	44
Recognized loss	1,425	1,372	4,042	3,218
Defined benefit pension plans net periodic pension cost (income)	$1,292	$1,278	$ (192)	$ (674)

	Three Months Ended March 31	
Company Contributions		
(In thousands)	2017	2016
Defined benefit pension plans (U.S.)	$471	$470
Defined benefit pension plans (International)	8,337	9,798
Multiemployer pension plans	485	521
Defined contribution pension plans	2,560	2,826

The Company's estimate of expected contributions to be paid during the remainder of 2017 for the U.S. and international defined benefit pension plans are $5.8 million and $8.4 million, respectively.

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8. Income Taxes

The income tax expense related to continuing operations for the three months ended March 31, 2017 was $6.3 million. The income tax benefit related to continuing operations for the three months ended March 31, 2016 was $2.2 million.

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 March 31, 2017 was $5.3 million, including interest and penalties. Within the next twelve months, it is reasonably possible that $0.8 million of unrecognized income tax benefits will be recognized upon settlement of tax examinations and the expiration of various statutes of limitations.

9. 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 March 31, 2017, 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 $25 million. Any change in the aggregate amount since the Company’s last Annual Report on Form 10-K for the year ended December 31, 2016 is due to an increase in assessed interest and statutorily mandated legal fees for the period, as well as foreign currency translation.

Another ICMS tax case involving the SPRA refers to the tax period from January 2002 to December 2003, and is still pending at the administrative phase. The aggregate amount assessed by the tax authorities in August 2005 was $8.0 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 $1.9 million, with penalty and interest assessed through that date increasing such amount by an additional $6.1 million. All such amounts include the effect of foreign currency translation.

The Company continues to believe that it is not probable that it will incur a loss for these assessments by the SPRA. The Company also continues to believe that sufficient coverage for these claims exists as a result of the Company's customer's indemnification obligations and such customer's pledge of assets in connection with the October 2009 notice, as required by Brazilian law.

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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.

Brazilian Labor Disputes

The Company is subject to 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 March 31, 2017 and December 31, 2016, the Company has established reserves of $8.7 million and $7.9 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, through its Harsco Metals & Minerals Segment, may, in the normal course of business, become involved in commercial disputes with subcontractors or customers.

During the first quarter of 2015, a rail grinder manufactured by the Company's Harsco Rail Segment and operated by a subcontractor caught fire, causing a customer to incur monetary damages. Depending on the cause of the fire and the extent of insurance coverage, the Company's results of operations and cash flows may be impacted in future periods.

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 these 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.

U.K. Health and Safety Executive Matter

In the third quarter of 2016, a subsidiary in the Company’s Harsco Metals & Minerals Segment, along with one of its customers, was named as a co-defendant in an action brought by the U.K. Health and Safety Executive in the U.K. Crown Court Sitting at Kingston-Upon-Hull. The action relates to a fatal accident involving one of the customer’s employees in 2010. The action seeks to levy a fine against the Company. The Company believes it is not responsible for the accident and is defending the action vigorously. A loss provision related to this action has not been recorded in the Company's condensed consolidated financial statements, because the Company believes that a loss is not probable. However, if the outcome of the proceedings is unfavorable, the Company does not believe it would have a material adverse affect on the Company's financial condition, results of operations or cash flows.

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.

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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.

At March 31, 2017, there were 17,159 pending asbestos personal injury actions filed against the Company. Of those actions, 16,754 were filed in the New York Supreme Court (New York County), 111 were filed in other New York State Supreme Court Counties and 294 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 March 31, 2017, 16,732 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 22 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 Company believes that a substantial portion of the costs and expenses of the asbestos actions will be 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 March 31, 2017, the Company has obtained dismissal in 27,915 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.

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, 2016 for additional information on Accrued insurance and loss reserves.

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10. Reconciliation of Basic and Diluted Shares

(In thousands, except per share amounts)	Three Months Ended March 31 2017	2016
Income (loss) from continuing operations attributable to Harsco Corporation common stockholders	$9,267	$(10,550)
Weighted-average shares outstanding - basic	80,385	80,238
Dilutive effect of stock-based compensation	1,878	—
Weighted-average shares outstanding - diluted	82,263	80,238
Earnings (loss) from continuing operations per common share, attributable to Harsco Corporation common stockholders:		
Basic	$0.12	$(0.13)
Diluted	$0.11	$(0.13)

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

(In thousands)	Three Months Ended March 31 2017	2016
Restricted stock units	—	430
Stock options	55	90
Stock appreciation rights	1,263	1,088
Performance share units	467	309

11. 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 or forecasted commodity purchases 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. Generally, at March 31, 2017, deferred gains and losses related to asset purchases are reclassified to earnings over 10 to 15 years from the balance sheet date, and those related to revenue are deferred until the revenue is recognized. The ineffective portion of all hedges, if any, is recognized currently in earnings.

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

	Asset Derivatives		Liability Derivatives	
(In thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
March 31, 2017				
Derivatives designated as hedging instruments:				
Foreign currency exchange forward contracts	Other current assets	$ 191	Other current liabilities	$ 195
Cross-currency interest rate swaps	Other current assets	307		—
Interest rate swaps	Other current assets	—	Other current liabilities	117
Interest rate swaps	Other assets	178	Other liabilities	582
Total derivatives designated as hedging instruments		$ 676		