HARSCO CORP
Form 10-Q
August 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 June 30, 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 July 31, 2017
Common stock, par value $1.25 per share	80,419,576

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	June 30 2017	December 31 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$58,105	$69,831
Restricted cash	4,671	2,048
Trade accounts receivable, net	289,280	236,554
Other receivables	22,340	21,053
Inventories	201,851	187,681
Other current assets	32,840	33,108
Total current assets	609,087	550,275
Property, plant and equipment, net	484,100	490,255
Goodwill	393,804	382,251
Intangible assets, net	39,972	41,567
Deferred income tax assets	106,044	106,311
Other assets	13,277	10,679
Total assets	$1,646,284	$1,581,338
LIABILITIES		
Current liabilities:		
Short-term borrowings	$5,985	$4,259
Current maturities of long-term debt	16,248	25,574
Accounts payable	118,633	107,954
Accrued compensation	44,210	46,658
Income taxes payable	7,742	4,301
Insurance liabilities	11,949	11,850
Advances on contracts and other customer advances	124,902	117,329
Other current liabilities	135,191	109,748
Total current liabilities	464,860	427,673
Long-term debt	617,674	629,239
Insurance liabilities	23,344	25,265
Retirement plan liabilities	310,278	319,597
Other liabilities	43,232	42,001
Total liabilities	1,459,388	1,443,775
COMMITMENTS AND CONTINGENCIES		
HARSCO CORPORATION STOCKHOLDERS' EQUITY		
Preferred stock	—	—
Common stock	141,039	140,625
Additional paid-in capital	178,435	172,101
Accumulated other comprehensive loss	(591,735)	(606,722)
Retained earnings	1,177,907	1,150,688
Treasury stock	(761,717)	(760,391)
Total Harsco Corporation stockholders' equity	143,929	96,301
Noncontrolling interests	42,967	41,262

Total equity	186,896	137,563
Total liabilities and equity	$1,646,284	$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 June 30		Six Months Ended June 30	
(In thousands, except per share amounts)	2017	2016	2017	2016
Revenues from continuing operations:				
Service revenues	$251,306	$249,626	$491,915	$475,120
Product revenues	143,592	120,307	275,524	248,094
Total revenues	394,898	369,933	767,439	723,214
Costs and expenses from continuing operations:				
Cost of services sold	192,690	191,508	381,591	381,325
Cost of products sold	100,727	125,388	199,593	218,632
Selling, general and administrative expenses	55,606	49,520	110,747	100,304
Research and development expenses	1,329	956	2,160	1,838
Other expenses	2,072	1,247	2,966	10,370
Total costs and expenses	352,424	368,619	697,057	712,469
Operating income from continuing operations	42,474	1,314	70,382	10,745
Interest income	493	552	1,005	1,087
Interest expense	(12,405)	(13,805)	(24,058)	(26,168)
Change in fair value to the unit adjustment liability and loss on dilution of equity method investment	—	(1,489)	—	(13,706)
Income (loss) from continuing operations before income taxes and equity income (loss)	30,562	(13,428)	47,329	(28,042)
Income tax expense	(11,234)	(12,000)	(17,487)	(9,834)
Equity income (loss) of unconsolidated entities, net	—	(694)	—	2,481
Income (loss) from continuing operations	19,328	(26,122)	29,842	(35,395)
Discontinued operations:				
Income on disposal of discontinued business	628	2,886	40	2,380
Income tax expense related to discontinued business	(225)	(1,065)	(14)	(878)
Income from discontinued operations	403	1,821	26	1,502
Net income (loss)	19,731	(24,301)	29,868	(33,893)
Less: Net income attributable to noncontrolling interests	(693)	(1,872)	(1,940)	(3,149)
Net income (loss) attributable to Harsco Corporation	$19,038	$(26,173)	$27,928	$(37,042)
Amounts attributable to Harsco Corporation common stockholders:				
Income (loss) from continuing operations, net of tax	$18,635	$(27,994)	$27,902	$(38,544)
Income from discontinued operations, net of tax	403	1,821	26	1,502
Net income (loss) attributable to Harsco Corporation common stockholders	$19,038	$(26,173)	$27,928	$(37,042)
Weighted-average shares of common stock outstanding	80,535	80,337	80,460	80,288
Basic earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	$0.23	$(0.35)	$0.35	$(0.48)
Discontinued operations	0.01	0.02	—	0.02
Basic earnings (loss) per share attributable to Harsco Corporation common stockholders	$0.24	$(0.33)	$0.35	$(0.46)
Diluted weighted-average shares of common stock outstanding	82,850	80,337	82,558	80,288
Diluted earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	$0.22	$(0.35)	$0.34	$(0.48)
Discontinued operations	—	0.02	—	0.02
	$0.23 (a)	$(0.33)	$0.34	$(0.46)

Diluted earnings (loss) per share attributable to Harsco Corporation
common stockholders
(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 (LOSS) (Unaudited)

	Three Months Ended June 30	
(In thousands)	2017	2016
Net income (loss)	$19,731	$(24,301)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of $1,458 and $(4,977) in 2017 and 2016, respectively	9,825	(14,394)
Net loss on cash flow hedging instruments, net of deferred income taxes of $611 and $401 in 2017 and 2016, respectively	(341)	(144)
Pension liability adjustments, net of deferred income taxes of $(522) and $(571) in 2017 and 2016, respectively	(10,348)	21,855
Unrealized gain on marketable securities, net of deferred income taxes of $- and $(2) in 2017 and 2016, respectively	—	4
Total other comprehensive income (loss)	(864)	7,321
Total comprehensive income (loss)	18,867	(16,980)
Less: Comprehensive income attributable to noncontrolling interests	(1,841)	(1,183)
Comprehensive income (loss) attributable to Harsco Corporation	$17,026	$(18,163)

	Six Months Ended June 30	
(In thousands)	2017	2016
Net income (loss)	$29,868	$(33,893)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of $1,851 and $(8,554) in 2017 and 2016, respectively	26,386	(2,773)
Net loss on cash flow hedging instruments, net of deferred income taxes of $867 and $415 in 2017 and 2016, respectively	(728)	(2,551)
Pension liability adjustments, net of deferred income taxes of $(1,044) and $(1,256) in 2017 and 2016, respectively	(9,143)	32,295
Unrealized gain (loss) on marketable securities, net of deferred income taxes of $(3) and $2 in 2017 and 2016, respectively	6	(3)
Total other comprehensive income	16,521	26,968
Total comprehensive income (loss)	46,389	(6,925)
Less: Comprehensive income attributable to noncontrolling interests	(3,474)	(2,731)
Comprehensive income (loss) attributable to Harsco Corporation	$42,915	$(9,656)

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30	
(In thousands)	2017	2016
Cash flows from operating activities:		
Net income (loss)	$29,868	$(33,893)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	60,495	65,736
Amortization	4,008	5,926
Change in fair value to the unit adjustment liability and loss on dilution of equity method investment	—	13,706
Deferred income tax expense (benefit)	3,433	(2,857)
Equity in (income) loss of unconsolidated entities, net	—	(2,481)
Dividends from unconsolidated entities	19	16
Contract estimated forward loss provision for Harsco Rail Segment	—	40,050
Other, net	5,708	1,871
Changes in assets and liabilities:		
Accounts receivable	(42,806)	3,011
Inventories	(6,296)	(23,791)
Accounts payable	4,259	(16,308)
Accrued interest payable	166	(36)
Accrued compensation	(4,365)	1,237
Advances on contracts and other customer advances	(1,479)	(1,109)
Retirement plan liabilities, net	(11,221)	(13,871)
Other assets and liabilities	4,990	(8,534)
Net cash provided by operating activities	46,779	28,673
Cash flows from investing activities:		
Purchases of property, plant and equipment	(40,700)	(32,176)
Proceeds from sales of assets	1,534	5,115
Purchases of businesses, net of cash acquired	—	(26)
Other investing activities, net	4,170	(616)
Net cash used by investing activities	(34,996)	(27,703)
Cash flows from financing activities:		
Short-term borrowings, net	2,302	1,949
Current maturities and long-term debt:		
Additions	24,000	50,019
Reductions	(46,712)	(75,608)
Cash dividends paid on common stock	—	(4,105)
Dividends paid to noncontrolling interests	(1,769)	(1,702)
Purchase of noncontrolling interests	—	(4,731)
Stock-based compensation - Employee taxes paid	(1,326)	(91)
Proceeds from cross-currency interest rate swap termination	—	16,625
Deferred financing costs	(42)	(895)
Other financing activities, net	(368)	—
Net cash used by financing activities	(23,915)	(18,539)

Effect of exchange rate changes on cash and cash equivalents, including restricted cash	3,029	7,051
Net decrease in cash and cash equivalents, including restricted cash	(9,103)	(10,518)
Cash and cash equivalents, including restricted cash, at beginning of period	71,879	79,756
Cash and cash equivalents, including restricted cash, at end of period	$62,776	$69,238

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)				(37,042)		3,149	(33,893)
Cash dividends declared:							
Noncontrolling interests						(1,702)	(1,702)
Total other comprehensive income (loss), net of deferred income taxes of $(9,393)					27,386	(418)	26,968
Purchase of subsidiary shares from noncontrolling interest			(5,128)			397	(4,731)
Vesting of restricted stock units and other stock grants, net 80,598 shares	119	(92)	(595)				(568)
Amortization of unearned portion of stock-based compensation, net of forfeitures			4,072				4,072
Balances, June 30, 2016	$140,622	$(760,391)	$169,048	$1,199,313	$(488,302)	$40,659	$300,949

	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
Adoption of new accounting standard (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

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 and six months ended June 30, 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.

Restricted Cash

The Company had restricted cash of $4.7 million and $2.0 million at June 30, 2017 and December 31, 2016, respectively, and the restrictions are primarily related to collateral provided for certain guarantees of the Company’s performance.

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 a tax benefit of $0.5 million for both the three and six months ended June 30, 2017.

During the second quarter of 2017, the Company early-adopted changes issued by the FASB that added and clarified guidance related to the classification, presentation and disclosure of restricted cash in the statement of cash flows. The adoption of these changes did not have an impact on the Company's condensed consolidated statement of cash flows for the current and prior periods.

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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 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 and continues to progress with regard to the quantification of the above identified differences.
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 allow 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.

In May 2017, the FASB issued changes to clarify 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 changes become effective for the Company on January 1, 2018. Management does not believe these changes will impact its condensed consolidated financial statements.

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3. Accounts Receivable and Inventories

Accounts receivable consist of the following:

(In thousands)	June 30 2017	December 31 2016
Trade accounts receivable	$297,221	$ 248,354
Less: Allowance for doubtful accounts	(7,941)	(11,800)
Trade accounts receivable, net	$289,280	$ 236,554
Other receivables (a)	$22,340	$ 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 decrease in the Allowance for doubtful accounts during 2017 is due to the write-off of previously reserved trade accounts receivable balances.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
(In thousands)	2017	2016	2017	2016
Provision for doubtful accounts related to trade accounts receivable	$1,197	$323	$1,175	$177

Inventories consist of the following:

(In thousands)	June 30 2017	December 31 2016
Finished goods	$23,272	$ 26,464
Work-in-process	23,415	22,815
Contracts-in-process	73,156	54,044
Raw materials and purchased parts	57,967	61,450
Stores and supplies	24,041	22,908
Total inventories	$201,851	$ 187,681

Contracts-in-process consist of the following:

(In thousands)	June 30 2017	December 31 2016
Contract costs accumulated to date	$110,281	$ 90,276
Estimated forward loss provisions for contracts-in-process (b)	(37,125)	(36,232)
Contracts-in-process (c)	$73,156	$ 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 June 30, 2017 and December 31, 2016 this amount totaled $5.1 million and $6.7 million, respectively.

(c) At June 30, 2017 and December 31, 2016, the Company has $109.9 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, of which $40.1 million was recognized during the three and six months ended
June 30, 2016. There was no additional estimated forward loss provision recognized, excluding the impact of foreign currency fluctuation, for the three and six months ended June 30, 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 this time.

The Company did not recognize any revenue for the contracts with SBB for the three and six months ended June 30, 2017 and 2016 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.

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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 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 and six months ended June 30, 2016 the Company recognized $1.5 million and $3.4 million, respectively, 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, approximately 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 and six months ended March 31, 2016 were utilized by the Company to record its proportional share of income in the three and six months ended June 30, 2016. There was no equity income recorded for Brand for the three and six months ended June 30, 2017 due to the sale of the interest in Brand. Brand's results of operations are summarized as follows:

(In thousands)	Three Months Ended March 31 2016	Six Months Ended March 31 2016
Net revenues	$750,394	$1,551,146
Gross profit	148,972	329,549

Net income (loss) attributable to Brand Energy & Infrastructure Services, Inc. and Subsidiaries	(2,682)	8,378
Harsco's equity in income (loss) of Brand	(694)	2,481

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5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	June 30 2017	December 31 2016
Land	$10,822	$ 10,606
Land improvements	15,398	15,032
Buildings and improvements	192,785	185,657
Machinery and equipment	1,589,309	1,525,156
Uncompleted construction	21,088	21,035
Gross property, plant and equipment	1,829,402	1,757,486
Less: Accumulated depreciation	(1,345,302)	(1,267,231)
Property, plant and equipment, net	$484,100	$ 490,255

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, 2017:

(In thousands)	Harsco Metals & Minerals Segment	Harsco Industrial Segment	Harsco Rail Segment	Consolidated Totals
Balance at December 31, 2016	$362,386	$ 6,839	$13,026	$ 382,251
Foreign currency translation	11,553	—	—	11,553
Balance at June 30, 2017	$373,939	$ 6,839	$13,026	$ 393,804

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 June 30, 2017, no interim goodwill impairment testing was necessary.

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

	June 30, 2017		December 31, 2016	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	$150,373	$ 117,365	$146,840	$ 112,610
Patents	5,783	5,649	5,729	5,534
Technology related	25,918	25,907	25,687	25,634
Trade names	8,312	4,687	8,306	4,529
Other	8,709	5,515	8,512	5,200
Total	$199,095	$ 159,123	$195,074	$ 153,507

Amortization expense for intangible assets was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2017	2016	2017	2016
Amortization expense for intangible assets	$1,280	$2,050	$2,598	$4,155

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.

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7. Employee Benefit Plans

Defined Benefit Pension Plans Net Periodic Pension Cost	Three Months Ended June 30			
	U.S. Plans		International Plans	
(In thousands)	2017	2016	2017	2016
Defined benefit plans:				
Service cost	$942	$946	$ 406	$ 405
Interest cost	2,470	2,545	5,773	6,984
Expected return on plan assets	(3,552)	(3,601)	(10,515)	(11,219)
Recognized prior service costs	8	15	46	45
Recognized loss	1,425	1,372	4,087	3,142
Defined benefit pension plans net periodic pension cost (income)	$1,293	$1,277	$ (203)	$ (643)

Defined Benefit Pension Plans Net Periodic Pension Cost	Six Months Ended June 30			
	U.S. Plans		International Plans	
(In thousands)	2017	2016	2017	2016
Service costs	$1,884	$1,892	$817	$809
Interest cost	4,939	5,090	11,507	14,107
Expected return on plan assets	(7,104)	(7,202)	(20,939)	(22,682)
Recognized prior service costs	16	31	91	89
Recognized loss	2,850	2,744	8,129	6,360
Defined benefit pension plans net periodic pension cost (income)	$2,585	$2,555	$(395)	$(1,317)

Company Contributions	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2017	2016	2017	2016
Defined benefit pension plans (U.S.)	$471	$470	$942	$ 940
Defined benefit pension plans (International)	2,963	3,254	11,300	13,052
Multiemployer pension plans	498	505	983	1,026
Defined contribution pension plans	2,468	2,476	5,028	5,302

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 $5.3 million and $6.2 million, respectively.

8. Income Taxes

Income tax expense related to continuing operations for the three and six months ended June 30, 2017 was $11.2 million and $17.5 million, respectively. Income tax expense related to continuing operations for the three and six months ended
June 30, 2016 was $12.0 million and $9.8 million, respectively.

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, 2017 was $5.7 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.

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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 June 30, 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 $24 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 has not yet reached the judicial phase. The aggregate amount assessed by the tax authorities in August 2005 was $7.6 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 $1.8 million, with penalty and interest assessed through that date increasing such amount by an additional $5.8 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.

The Company intends to continue its practice of vigorously defending itself against these tax claims under various alternatives, including judicial appeal. The Company will continue to evaluate its potential liability with regard to these claims on a quarterly basis; however, it is not possible to predict the ultimate outcome of these tax-related disputes in Brazil. No loss provision has been recorded in the Company's condensed consolidated financial statements for the disputes described above because the loss contingency is not deemed probable, and the Company does not expect that any costs that are reasonably possible to be incurred by the Company in connection with Brazilian tax disputes would have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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Brazilian Labor Disputes

The Company is subject to 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, 2017 and December 31, 2016, the Company has established reserves of $8.0 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. If the outcome of the proceedings is unfavorable, the Company does not believe it would have a material adverse effect on the Company's financial condition, however an unfavorable decision could have a material impact on the Company's results of operations in any one period.

Other

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

The Company believes that the claims against it are without merit. The Company has never been a producer, manufacturer or processor of asbestos fibers. Any asbestos-containing part of a Company product used in the past was purchased from a supplier and the asbestos encapsulated in other materials such that airborne exposure, if it occurred, was not harmful and is not associated with the types of injuries alleged in the pending actions.

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At June 30, 2017, there were 17,164 pending asbestos personal injury actions filed against the Company. Of those actions, 16,752 were filed in the New York Supreme Court (New York County), 111 were filed in other New York State Supreme Court Counties and 301 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, 2017, 16,730 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 June 30, 2017, the Company has obtained dismissal in 27,921 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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
(In thousands, except per share amounts)	2017	2016	2017	2016
Income (loss) from continuing operations attributable to Harsco Corporation common stockholders	$18,635	$(27,994)	$27,902	$(38,544)
Weighted-average shares outstanding - basic	80,535	80,337	80,460	80,288
Dilutive effect of stock-based compensation	2,315	—	2,098	—
Weighted-average shares outstanding - diluted	82,850	80,337	82,558	80,288
Earnings (loss) from continuing operations per common share, attributable to Harsco Corporation common stockholders:				
Basic	$0.23	$(0.35)	$0.35	$(0.48)
Diluted	$0.22	$(0.35)	$0.34	$(0.48)

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:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
(In thousands)	2017	2016	2017	2016
Restricted stock units	—	957	—	694
Stock options	55	90	55	90
Stock appreciation rights	972	1,641	1,117	1,364
Performance share units	176	835	320	572

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 may be accounted for as cash flow hedges, as deemed appropriate if the criteria for hedge accounting are met. Gains and losses on derivatives designated as cash flow hedges are deferred in Accumulated other comprehensive loss, a separate component of equity, and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. The ineffective portion of all hedges, if any, is recognized currently in earnings.

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

	Asset Derivatives	Liability Derivatives

(In thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
June 30, 2017				
Derivatives designated as hedging instruments:				
Foreign currency exchange forward contracts	Other current assets	$ 895	Other current liabilities	$ 60
Cross-currency interest rate swaps	Other current assets	206		—
Interest rate swaps		—	Other current liabilities	196
Interest rate swaps	Other assets	35	Other liabilities	2,382
Total derivatives designated as hedging instruments		$ 1,136		$ 2,638
Derivatives not designated as hedging instruments:				
Foreign currency exchange forward contracts	Other current assets	$ 2,311	Other current liabilities	$ 17,131

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(In thousands)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
December 31, 2016				
Derivatives designated as hedging instruments:				
Foreign currency exchange forward contracts	Other current assets	$ 473	Other current liabilities	$ 166
Cross-currency interest rate swaps	Other current assets	514		—
Total derivatives designated as hedging instruments		$ 987		$ 166
Derivatives not designated as hedging instruments:				
Foreign currency exchange forward contracts	Other current assets	$ 4,459	Other current liabilities	$ 3,372

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 did not result in a net asset or net liability at either June 30, 2017 or December 31, 2016.

The effect of derivative instruments on the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Comprehensive Income (Loss), 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	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, 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	Interest expense	251	Cost of services and products sold	(107) (a)
	$ (1,017)		$ 65		$ (107)
Three Months Ended June 30, 2016:					
Foreign currency exchange forward contracts	$ (305)	Cost of services and products sold	$ (1)		$ —
Cross-currency interest rate swaps	(520)	Interest expense	281	Cost of services and products sold	(42) (a)
	$ (825)		$ 280		$ (42)

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(In thousands)	Amount Recognized in OCI on Derivative - Effective Portion	Location Amount Reclassified from Accumulated OCI into Income - Effective Portion	Amount Reclassified from Accumulated OCI into Income - Effective Portion	Location of Amount Recognized in Income on Derivative - Ineffective Portion and Amount Excluded from Effectiveness Testing	Amount Recognized in Income on Derivative - Ineffective Portion and Amount Excluded from Effectiveness Testing
Six Months Ended June 30, 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)	Interest expense	493	Cost of services and products sold	(317) (a)
	$ (1,903)		$ 308		$ (317)
Six Months Ended June 30, 2016:					
Foreign currency forward exchange contracts	$ (630)	Product revenues / Cost of services and products sold	$ (409)		$ —
Cross currency interest rate swaps	(2,151)	Interest expense	224	Cost of services and products sold	4,219 (a)
	$ (2,781)		$ (185)		$ 4,219

(a) These gains offset foreign currency fluctuation effects on the debt principal.

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 (b) 2017	2016
Foreign currency exchange forward contracts	Cost of services and products sold	$ (13,289)	$ 8,583

(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 (b) 2017	2016
Foreign currency forward exchange contracts	Cost of services and products sold	$ (11,739)	$ 1,739

(b) 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.

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.

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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, 2017:

(In thousands)	Type	U.S. Dollar Equivalent	Maturity	Recognized Gain (Loss)
British pounds sterling	Sell	$ 69,228	July 2017	$ (1,516)
British pounds sterling	Buy	9,788	July 2017 through September 2017	108
Euros	Sell	304,566	July 2017 through December 2017	(14,233)
Euros	Buy	163,183	July 2017 through May 2018	2,482
Other currencies	Sell	47,184	July 2017 through December 2017	(880)
Other currencies	Buy	14,292	July 2017 through January 2018	54
Total		$ 608,241		$ (13,985)

Contracted Amounts of Foreign Currency Exchange Forward Contracts Outstanding at December 31, 2016:

(In thousands)	Type	U.S. Dollar Equivalent	Maturity	Recognized Gain (Loss)
British pounds sterling	Sell	$ 55,120	January 2017	$ (228)
British pounds sterling	Buy	827	March 2017	(14)
Euros	Sell	326,797	January 2017 through December 2017	628
Euros	Buy	171,578	January 2017 through January 2018	(468)
Other currencies	Sell	43,455	January 2017 through September 2017	1,477
Other currencies	Buy	3,106	March 2017	(1)
Total		$ 600,883		$ 1,394

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 gains of $7.7 million and $9.5 million during the three and six months ended June 30, 2017, respectively and pre-tax net losses of $16.4 million and $20.3 million during the three and six months ended June 30, 2016, 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, the Company entered into a series of fixed to floating interest rate swaps that cover the period from 2018 through 2021, 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, range from 1.65% for 2018 to 2.71% for 2021.

The following table indicates the notional amounts of the Company's interest rate swaps at June 30, 2017:

	Annual	Interest Rates	
(In millions)	Notional Amount	Receive	Pay
Maturing 2018 through 2021	$ 300.0	Floating U.S. dollar rate	Fixed U.S. dollar rate

Cross-Currency Interest Rate Swaps (CCIRs)

The Company uses 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 on the Condensed Consolidated Statements of Operations and offset currency fluctuation effects on the debt principal.

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The following table indicates the contractual amounts of the Company's CCIRs at June 30, 2017:

		Interest Rates	
(In millions)	Contractual Amount	Receive	Pay
Maturing 2017	$ 1.4	Floating U.S. dollar rate	Fixed rupee rate

During March 2016, the Company effected the early termination of the British pound sterling CCIR with an original maturity date of 2020. The Company received $16.6 million in cash related to this termination. There was no gain or loss recorded on the termination, as any change in value attributable to the effect of foreign currency translation was previously recognized in the Condensed Consolidated Statements of Operations.

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	June 30	December 31
(In thousands)	2017	2016
Assets		
Foreign currency exchange forward contracts	$ 3,206	$ 4,932
Interest rate swaps	35	—
Cross-currency interest rate swaps	206	514
Liabilities		
Foreign currency exchange forward contracts	17,191	3,538
Interest rate swaps	2,578	—

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The following table reconciles the beginning and ending balances for liabilities measured on a recurring basis using unobservable inputs (Level 3):

Level 3 Liabilities—Unit Adjustment Liability (c) for the Six Months Ended June 30 (In thousands)	Six Months Ended June 30 2016
Balance at beginning of period	$79,934
Reduction in the fair value related to election not to make 2016 payments	(19,145)
Change in fair value to the unit adjustment liability	3,402
Balance at end of period	$64,191

(c) During the quarter ended March 31, 2016, the Company decided that it would not make the four quarterly payments to CD&R for 2016. This resulted in the Company revaluing the Unit Adjustment Liability. The Company sold its investment in Brand in September 2016 and the unit adjustment liability ceased at that time. See Note 4, Equity Method Investment, for additional information related to the unit adjustment liability.

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

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, 2017 and December 31, 2016, the total fair value of long-term debt (excluding deferred financing costs), including current maturities, was $658.6 million and $682.9 million, respectively, compared with a carrying value of $651.4 million and $673.4 million, respectively. Fair values for debt are based on quoted market prices (Level 1) for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities (Level 2).

12. Review of Operations by Segment

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2017	2016	2017	2016
Revenues From Continuing Operations				
Harsco Metals & Minerals	$259,306	$253,560	$506,340	$483,232
Harsco Industrial	73,563	66,270	139,448	128,139
Harsco Rail	61,994	50,103	121,582	111,843
Corporate	35	—	69	—
Total Revenues From Continuing Operations	$394,898	$369,933	$767,439	$723,214
Operating Income (Loss) From Continuing Operations				
Harsco Metals & Minerals	$32,177	$30,927	$58,606	$37,868
Harsco Industrial	9,151	7,300	11,955	13,771
Harsco Rail	7,961	(31,948)	13,947	(27,042)
Corporate	(6,815)	(4,965)	(14,126)	(13,852)
Total Operating Income From Continuing Operations	$42,474	$1,314	$70,382	$10,745
Depreciation and Amortization				
Harsco Metals & Minerals	$27,928	$30,662	$55,808	$61,687
Harsco Industrial	1,843	1,850	3,683	3,568

Harsco Rail	1,025	1,361	2,062	2,795
Corporate	1,479	1,744	2,950	3,612
Total Depreciation and Amortization	$32,275	$35,617	$64,503	$71,662
Capital Expenditures				
Harsco Metals & Minerals	$21,599	$13,305	$37,071	$28,725
Harsco Industrial	796	1,162	1,548	2,296
Harsco Rail	1,083	767	1,303	1,139
Corporate	233	(9)	778	16
Total Capital Expenditures	$23,711	$15,225	$40,700	$32,176

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Reconciliation of Segment Operating Income to Income From Continuing Operations Before Income Taxes and Equity Income (Loss)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
(In thousands)	2017	2016	2017	2016
Segment operating income	$49,289	$6,279	$84,508	$24,597
General Corporate expense	(6,815)	(4,965)	(14,126)	(13,852)
Operating income from continuing operations	42,474	1,314	70,382	10,745
Interest income	493	552	1,005	1,087
Interest expense	(12,405)	(13,805)	(24,058)	(26,168)
Change in fair value to the unit adjustment liability and loss on dilution of equity method investment	—	(1,489)	—	(13,706)
Income (loss) from continuing operations before income taxes and equity income (loss)	$30,562	$(13,428)	$47,329	$(28,042)

13. Other Expenses

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
(In thousands)	2017	2016	2017	2016
Employee termination benefit costs	$1,695	$1,194	$2,448	$6,966
Harsco Metals & Minerals Segment separation costs	—	10	—	3,297
Net gains (a)	(88)	(105)	(210)	(757)
Other costs to exit activities	247	36	347	218
Impaired asset write-downs	281	23	281	116
Other	(63)	89	100	530
Other expenses	$2,072	$1,247	$2,966	$10,370

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

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14. Components of Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is included on 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, 2016 and 2017 was as follows:

	Components of Accumulated Other Comprehensive Income (Loss) - Net of Tax				
(In thousands)	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, 2015	$(125,561)	$(400)	$(389,696)	$(31)	$(515,688)
Other comprehensive income (loss) before reclassifications	(9,502) (a)	(2,262) (b)	23,873 (a)	(3)	12,106
Amounts reclassified from accumulated other comprehensive loss, net of tax	—	(129)	8,190	—	8,061
Realized (gains) losses reclassified from accumulated other comprehensive loss in connection with loss on dilution of equity method investment (See Note 4, Equity Method Investments)	3,079	106	(148)	—	3,037
Other comprehensive income (loss) from equity method investee	3,650	(266)	380	—	3,764
Total other comprehensive income (loss)	(2,773)	(2,551)	32,295	(3)	26,968
Less: Other comprehensive income (loss) attributable to noncontrolling interests	425	(7)	—	—	418
Other comprehensive income (loss) attributable to Harsco Corporation	(2,348)	(2,558)	32,295	(3)	27,386
Balance at June 30, 2016	$(127,909)	$(2,958)	$(357,401)	$(34)	$(488,302)

	Components of Accumulated Other Comprehensive Income (Loss) - Net of Tax				
(In thousands)	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
Less: Other comprehensive income 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)

(a) Principally foreign currency fluctuation.
(b) Net change from periodic revaluations.

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Amounts reclassified from accumulated other comprehensive loss are as follows:

(In thousands)	Three Months Ended June 30 2017	Three Months Ended June 30 2016	Six Months Ended June 30 2017	Six Months Ended June 30 2016	Affected Caption in the Condensed Consolidated Statements of Operations
Amortization of cash flow hedging instruments:					
Foreign currency exchange forward contracts	$(189)	$—	$(189)	$(408)	Product revenues
Foreign currency exchange forward contracts	3	(1)	4	(1)	Cost of services and products sold
Cross-currency interest rate swaps	251	281	493	224	Interest expense
Total before tax	65	280	308	(185)	
Tax expense	(29)	(109)	(123)	56	
Total reclassification of cash flow hedging instruments, net of tax	$36	$171	$185	$(129)	
Amortization of defined benefit pension items (c):					
Actuarial losses	$2,706	$2,285	$5,358	$4,661	Selling, general and administrative expenses
Actuarial losses	2,806	2,229	5,621	4,443	Cost of services and products sold
Prior-service benefits	(10)	(3)	(22)	(4)	Selling, general and administrative expenses
Prior-service costs	64	63	129	124	Cost of services and products sold
Total before tax	5,566	4,574	11,086	9,224	
Tax benefit	(522)	(517)	(1,044)	(1,034)	
Total reclassification of defined benefit pension items, net of tax	$5,044	$4,057	$10,042	$8,190	

(c) These accumulated other comprehensive loss components are included in the computation of net periodic pension costs. See Note 7, Employee Benefit Plans, for additional details.

Amounts reclassified from accumulated other comprehensive loss in connection with loss on dilution of equity method investment are as follows:

(In thousands)	Six Months Ended June 30 2016	Affected Caption in the Condensed Consolidated Statements of Operations
Foreign exchange translation adjustments	$4,880	Change in fair value to the adjustment liability and loss on dilution of equity method investment
Cash flow hedging instruments	168	Change in fair value to the adjustment liability and loss on dilution of equity method investment
Defined benefit pension obligations	(235)	Change in fair value to the adjustment liability and loss on dilution of equity method investment
Total before tax	4,813	
Tax benefit	(1,776)	
	$3,037	

Total amounts reclassified from accumulated other comprehensive loss in connection with loss on dilution of equity method investment

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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, 2016 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 2017 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 prolonged recovery in global financial and credit markets and economic conditions generally, which could result in the Company's customers curtailing development projects, construction, production and capital expenditures, which, in turn, could reduce the demand for the Company's products and services and, accordingly, the Company's revenues, margins and profitability; (15) the outcome of any disputes with customers, contractors and subcontractors; (16) 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; (17) implementation of environmental remediation matters; (18) risk and uncertainty associated with intangible assets; and (19) 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, 2016 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.

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Executive Overview

Markets served by the Company's Harsco Metals & Minerals Segment continued to demonstrate some improvement during the first six months of 2017 as increased customer steel production and higher commodity volumes and prices positively affected both revenues and operating income. In addition, results were positively affected by the operational benefits and discipline achieved in recent years due to the Harsco Metals & Minerals Segment's Improvement Plan ("Project Orion").

Energy markets also demonstrated some fundamental improvement during the second quarter and first six months of 2017. The Harsco Industrial Segment’s air-cooled heat exchangers business has seen steadily improving results. Bookings for this business have increased but may fluctuate with energy prices and underlying market fundamentals. The Harsco Industrial Segment's industrial grating business continues to be impacted by a lack of large-scale projects, delayed capital expenditures, competitive market dynamics and increased material costs. Accordingly, these factors impacted revenue and operating income during the second quarter and first six months of 2017 in the Harsco Industrial Segment.

Results for the Harsco Rail Segment for the second quarter and the first six months of 2016, included an estimated loss provision of $40.1 million related to the Company's contracts with the federal railway system of Switzerland ("SBB"). The estimated loss provision resulted from increased vendor costs, ongoing discussions with the customer, and increased estimates for commissioning, certification and testing costs, as well as expected settlement with respect to the customer. Excluding the impact of the estimated loss provision, the Harsco Rail Segment's operating results during the second quarter and first six months of 2017 were consistent with the same periods in prior years.

Revenues by Segment (In millions)	Three Months Ended June 30 2017	2016	Change	%
Harsco Metals & Minerals	$259.3	$253.6	$ 5.7	2.3 %
Harsco Industrial	73.6	66.3	7.3	11.0
Harsco Rail	62.0	50.1	11.9	23.7
Corporate	—	—	—	—
Total revenues	$394.9	$369.9	$ 25.0	6.7 %

Revenues by Segment (In millions)	Six Months Ended June 30 2017	2016	Change	%
Harsco Metals & Minerals	$506.3	$483.2	$ 23.1	4.8%
Harsco Industrial	139.4	128.1	11.3	8.8
Harsco Rail	121.6	111.8	9.7	8.7
Corporate	0.1	—	0.1	—
Total revenues	$767.4	$723.2	$ 44.2	6.1%

Revenues by Region (In millions)	Three Months Ended June 30 2017	2016	Change	%
North America	$186.7	$159.4	$27.2	17.1 %
Western Europe	104.3	110.6	(6.2)	(5.6)
Latin America (includes Mexico)	45.8	45.0	0.8	1.8
Asia-Pacific	41.5	34.5	7.0	20.3
Middle East and Africa	10.0	12.2	(2.3)	(18.7)
Eastern Europe	6.6	8.2	(1.6)	(19.6)
Total revenues	$394.9	$369.9	$25.0	6.7 %

Revenues by Region (In millions)	Six Months Ended June 30 2017	2016	Change	%

North America	$357.4	$321.7	$35.7	11.1 %
Western Europe	205.6	218.9	(13.3)	(6.1)
Latin America (included Mexico)	90.9	79.7	11.2	14.0
Asia-Pacific	79.4	66.2	13.2	20.0
Middle East and Africa	20.5	21.5	(0.9)	(4.4)
Eastern Europe	13.5	15.2	(1.7)	(11.4)
Total revenues	$767.4	$723.2	$44.2	6.1 %

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Revenues for the Company during the second quarter and first six months 2017 were $394.9 million and $767.4 million, respectively compared with $369.9 million and $723.2 million, respectively, in the second quarter and first six months of 2016. The change is primarily related to the effect of higher volumes in the Harsco Metals & Minerals Segment, the Harsco Industrial Segment's air-cooled heat exchangers business, and machine sales in the Harsco Rail Segment; partially offset by the impacts of foreign currency translation and lower volumes in the Harsco Industrial Segment's industrial grating business. Foreign currency translation decreased revenues by $4.8 million and $10.3 million, respectively, for the second quarter and first six months of 2017 compared with the same period in the prior year.

Operating Income (Loss) by Segment	Three Months Ended June 30			
(In millions)	2017	2016	Change	%
Harsco Metals & Minerals	$32.2	$30.9	$1.3	4.0 %
Harsco Industrial	9.2	7.3	1.9	25.4
Harsco Rail	8.0	(31.9)	39.9	124.9
Corporate	(6.8)	(5.0)	(1.9)	(37.3)
Total operating income	$42.5	$1.3	$41.2	3,132.4 %

Operating Income (Loss) by Segment	Six Months Ended June 30			
(In millions)	2017	2016	Change	%
Harsco Metals & Minerals	$58.6	$37.9	$20.7	54.8 %
Harsco Industrial	12.0	13.8	(1.8)	(13.2)
Harsco Rail	13.9	(27.0)	41.0	151.6
Corporate	(14.1)	(13.9)	(0.3)	(2.0)
Total operating income	$70.4	$10.7	$59.6	555.0 %

	Three Months Ended June 30		Six Months Ended June 30	
Operating Margin by Segment	2017	2016	2017	2016
Harsco Metals & Minerals	12.4 %	12.2 %	11.6 %	7.8 %
Harsco Industrial	12.4	11.0	8.6	10.7
Harsco Rail	12.8	(63.8)	11.5	(24.2)
Consolidated operating margin	10.8 %	0.4 %	9.2 %	1.5 %

Operating income from continuing operations for the second quarter and first six months of 2017 was $42.5 million and $70.4 million, respectively, compared with $1.3 million and $10.7 million, respectively, in the second quarter and first six months of 2016. Refer to the segment discussions below for information pertaining to factors positively affecting and negatively impacting operating income from continuing operations.

Harsco Metals & Minerals Segment:

Significant Impacts on Revenues (In millions)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Revenues — 2016	$253.6	$483.2
Net effects of price/volume changes, primarily attributable to volume changes.	10.8	33.8
Impact of foreign currency translation.	(4.0)	(8.0)
Net impact of new and lost contracts (including exited underperforming contracts).	(1.1)	(2.4)
Other.	—	(0.3)

Revenues — 2017	$259.3	$506.3

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 6% and 8%, respectively, for the second quarter and first six months of 2017 compared with the same periods in the prior year. Excluding the impact of new and exited contracts, steel production by customers under services contracts increased by 4% and 6%, respectively, for the second quarter and first six months of 2017 compared with the same periods in the prior year.

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- Increased income attributable to the impact of improved nickel, chrome and scrap prices. Nickel-related prices increased 5% and 13%, respectively during the second quarter and first six months of 2017 compared with the same periods in the prior year.
- Severance costs resulting from a site exit decreased operating income by $5.1 million during the first six months of 2016, which did not repeat in the first six months of 2017.

Factors Negatively Impacting Operating Income:

- Moderately higher selling, general and administrative costs due to higher compensation costs, professional fees and bad debt expense.

Harsco Industrial Segment:

Significant Impacts on Revenues (In millions)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Revenues — 2016	$ 66.3	$ 128.1
Net effects of price/volume changes, primarily attributable to volume changes.	7.5	12.0
Impact of foreign currency translation.	(0.2)	(0.7)
Revenues — 2017	$ 73.6	$ 139.4

Factors Positively Affecting Operating Income:

- Higher overall volumes and a favorable sales mix in the air-cooled heat exchanger business, resulting in increased operating income during the second quarter and first six months of 2017 compared with the comparable periods in 2016.

Factors Negatively Impacting Operating Income:

- Lower volumes and an unfavorable sales mix in the industrial grating products business.
- Increased operating expenses including higher commissions due to the increase in volumes in the air-cooled heat exchanger business.

Harsco Rail Segment:

Significant Impacts on Revenues (In millions)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Revenues — 2016	$ 50.1	$ 111.8
Net impacts of price/volume changes, primarily attributable to volume changes.	12.3	11.2
Other.	0.3	0.2
Impact of foreign currency translation.	(0.7)	(1.6)
Revenues — 2017	$ 62.0	$ 121.6

Factors Positively Affecting Operating Income:

- During the second quarter of 2016, the Harsco Rail Segment recorded an estimated loss provision of $40.1 million related to the Company's contracts with SBB which did not repeat in the first six months of 2017.
- Increased equipment sales during the second quarter and first six months of 2017 compared with the same periods in prior year.
-

Increased after-market part sales increased operating income during the first six months of 2017 compared with the same period in prior year.

Factors Negatively Impacting Operating Income:

- Reductions in contract service revenues decreased operating income during the second quarter and first six months of 2017 compared with the same periods in the prior year.
- Reductions in after-market part sales decreased operating income during the second quarter of 2017 compared with the same period in prior year.
- Increased selling, general and administrative expenses primarily related to compensation, commissions and other costs.

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Outlook, Trends and Strategies

In addition to the items noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the following significant items, risks, trends and strategies are expected to affect the Company for the remainder of 2017 and beyond:

- The Company will focus on providing returns above its cost of capital for its stockholders by continuing to develop an attractive portfolio of businesses and by continuing to focus on internal growth and operational excellence.
- The Company will assess capital needs in the context of operational trends and strategic initiatives and expects to maintain a reasonable amount of financial leverage. Management will be selective and disciplined in allocating capital by rigorously analyzing projects and utilizing a return-based capital allocation process.
- The Company expects its operational effective income tax rate to approximate 36% to 38% in 2017, excluding the tax impact of the new stock-based compensation accounting standard.

Harsco Metals & Minerals Segment:

- Steel markets demonstrated some pricing improvement since early 2016 and the Company experienced improvements in demand and certain commodity prices during the second quarter and first six months of 2017. The Company expects these factors along with the effect of new contracts, the continued benefits achieved as part of Project Orion and additional improvement initiatives to positively affect operating income in 2017 in the Harsco Metals & Minerals Segment.
- In addition to the benefits and discipline that resulted from Project Orion, the Company will continue to focus on ensuring that forecasted results and other requirements for contracts meet certain established standards and deliver returns above its cost of capital. In connection with this focus, the possibility exists that the Company may take strategic actions that result in exit costs and non-cash asset impairment charges that may have an adverse effect on the Company's results of operations and liquidity.
- In January 2017, the Company announced two multi-year contracts for steel mill services in China and Brazil with projected revenues totaling more than $100 million. In March 2017, the Company announced a joint agreement with Hydro Industries for waste recycling solutions. In April 2017, the Company announced a ten year mill services contract in Egypt with projected revenues totaling approximately $60 million. In addition, in May 2017 the Company announced a multi-year contract in India to provide metal recovery and slag sales services with projected revenues totaling more than $25 million, and formation of a joint venture for metal recovery and slag sales services in Turkey.
- As the Company has previously disclosed, over the past several years the Company has been in discussions with officials at the Supreme Council for Environment in Bahrain ("Bahrain Council") with regard to a processing by-product ("salt cakes") located at Hafeera. During 2015, the Company recorded a charge of $7.0 million, payable over approximately seven to ten years, related to the estimated cost of processing and disposal of the salt cakes. The Company's Bahrain operations are operated under a strategic venture for which its strategic venture partner has a 35% minority interest. The Company is awaiting final approval from the Bahrain Council regarding the proposed processing and disposal method. If the Bahrain Council does not approve the proposed method or mandates alternative solutions, the Company’s estimated liability could change, and such change could be material in any one period.
- During 2016, one of the Company's customers announced its intention to conduct a strategic review of its steelmaking operations in Europe, including the possibility of strategic collaborations through a joint venture with another major steelmaker. Depending on the outcome of any potential transactions, there could be a material impact on the Company's results of operations, cash flows and asset valuations in any one period.
- One of the Company's customers in Australia has begun the process of voluntary administration under Australian law, the purpose of which is to focus on long-term solvency. The customer is continuing its operations during the voluntary administration proceedings. The Company had approximately $5 million of receivables with the customer prior to the start of the voluntary administration. The Company continues to believe that these amounts are collectible. The Company continues to provide services to the customer and continues to collect on post-administration invoices timely. However the administration process is uncertain in nature and length. As such, a loss on the pre-administration

receivables is reasonably possible, and if there was a change in the Company's view on collectability, there could be a charge against income in future periods.

- The Company will focus on growing the Harsco Metals & Minerals Segment through the provision of innovative solutions to handle customers' waste and by-products, improving commercial effectiveness and disciplined investments to improve competitive positioning in core and adjacent markets.