

HARSCO CORP
Form 10-Q
August 07, 2014
Table of Contents

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

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

For the Quarterly Period Ended June 30, 2014

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number 001-03970

HARSCO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

23-1483991

(State or other jurisdiction of incorporation or organization)

(I.R.S. employer identification number)

350 Poplar Church Road, Camp Hill, Pennsylvania
(Address of principal executive offices)

17011
(Zip Code)

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

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

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

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

Large accelerated filer ✓

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

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

YES o NO ✓

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

Class

Outstanding at July 31, 2014

Common stock, par value \$1.25 per share

80,808,779

Table of Contents

HARSCO CORPORATION
FORM 10-Q
INDEX

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Equity (Unaudited)</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Item 2.</u>	
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>Item 4.</u>	
<u>Controls and Procedures</u>	<u>38</u>
 <u>PART II — OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	<u>39</u>
<u>Item 1A.</u>	
<u>Risk Factors</u>	<u>39</u>
<u>Item 6.</u>	
<u>Exhibits</u>	<u>39</u>
<u>SIGNATURES</u>	<u>40</u>
<u>EXHIBIT INDEX</u>	<u>41</u>

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	June 30 2014	December 31 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$77,467	\$93,605
Trade accounts receivable, net	384,634	353,181
Other receivables	33,604	46,470
Inventories	176,348	155,689
Assets held-for-sale	—	113,968
Other current assets	88,552	75,842
Total current assets	760,605	838,755
Investments	292,481	298,856
Property, plant and equipment, net	708,611	711,346
Goodwill	440,168	431,265
Intangible assets, net	66,436	53,261
Other assets	115,228	108,265
Total assets	\$2,383,529	\$2,441,748
LIABILITIES		
Current liabilities:		
Short-term borrowings	\$6,934	\$7,489
Current maturities of long-term debt	22,014	20,257
Accounts payable	191,179	181,410
Accrued compensation	55,268	53,113
Income taxes payable	7,908	7,199
Dividends payable	16,565	16,536
Insurance liabilities	12,834	10,523
Advances on contracts	66,006	24,053
Liabilities of assets held-for-sale	—	109,176
Due to unconsolidated affiliate	14,154	24,954
Unit adjustment liability	22,320	22,320
Other current liabilities	140,012	129,739
Total current liabilities	555,194	606,769
Long-term debt	833,825	783,158
Deferred income taxes	6,170	8,217
Insurance liabilities	36,655	41,879
Retirement plan liabilities	218,988	241,049
Due to unconsolidated affiliate	27,152	27,292
Unit adjustment liability	77,881	84,023
Other liabilities	52,179	42,526
Total liabilities	1,808,044	1,834,913
COMMITMENTS AND CONTINGENCIES		
HARSCO CORPORATION STOCKHOLDERS' EQUITY		
Preferred stock	—	—
Common stock	140,435	140,248

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Additional paid-in capital	163,279	159,025
Accumulated other comprehensive loss	(369,641) (370,615
Retained earnings	1,345,311	1,381,321
Treasury stock	(746,930	) (746,237
Total Harsco Corporation stockholders' equity	532,454	563,742
Noncontrolling interests	43,031	43,093
Total equity	575,485	606,835
Total liabilities and equity	\$2,383,529	\$2,441,748

See accompanying notes to unaudited condensed consolidated financial statements.

3

Table of Contents
HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
(In thousands, except per share amounts)	2014	2013	2014	2013
Revenues from continuing operations:				
Service revenues	\$361,199	\$584,908	\$712,209	\$1,136,063
Product revenues	173,378	174,828	335,067	339,068
Total revenues	534,577	759,736	1,047,276	1,475,131
Costs and expenses from continuing operations:				
Cost of services sold	296,801	460,305	590,800	903,701
Cost of products sold	120,657	116,849	236,123	237,711
Selling, general and administrative expenses	77,969	125,623	144,763	250,321
Research and development expenses	1,983	2,184	4,602	4,380
Loss on disposal of the Harsco Infrastructure Segment and transaction costs	3,415	—	5,553	—
Other expenses	27,516	3,928	26,860	2,386
Total costs and expenses	528,341	708,889	1,008,701	1,398,499
Operating income from continuing operations	6,236	50,847	38,575	76,632
Interest income	410	830	707	1,236
Interest expense	(11,958)	(12,855)	(23,379)	(24,598)
Change in fair value to the unit adjustment liability	(2,473)	—	(5,019)	—
Income (loss) from continuing operations before income taxes and equity income (loss)	(7,785)	38,822	10,884	53,270
Income tax expense	(4,258)	(11,508)	(8,753)	(16,473)
Equity in income (loss) of unconsolidated entities, net	(3,008)	595	(4,238)	581
Income (loss) from continuing operations	(15,051)	27,909	(2,107)	37,378
Discontinued operations:				
Income (loss) on disposal of discontinued business	1,732	(863)	1,092	(1,505)
Income tax (expense) benefit related to discontinued business	(642)	330	(405)	575
Income (loss) from discontinued operations	1,090	(533)	687	(930)
Net income (loss)	(13,961)	27,376	(1,420)	36,448
Less: Net income attributable to noncontrolling interests	(14)	(3,578)	(1,416)	(5,405)
Net income (loss) attributable to Harsco Corporation	\$(13,975)	\$23,798	\$(2,836)	\$31,043
Amounts attributable to Harsco Corporation common stockholders:				
Income (loss) from continuing operations, net of tax	\$(15,065)	\$24,331	\$(3,523)	\$31,973
Income (loss) from discontinued operations, net of tax	1,090	(533)	687	(930)
Net income (loss) attributable to Harsco Corporation common stockholders	\$(13,975)	\$23,798	\$(2,836)	\$31,043
Weighted-average shares of common stock outstanding	80,885	80,760	80,850	80,733
Basic earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	\$(0.19)	\$0.30	\$(0.04)	\$0.40
Discontinued operations	0.01	(0.01)	0.01	(0.01)
Basic earnings (loss) per share attributable to Harsco Corporation common stockholders	\$(0.17)	(a)\$0.29	\$(0.04)	(a)\$0.39

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Diluted weighted-average shares of common stock outstanding	80,885	81,004	80,850	80,967
Diluted earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	\$(0.19)	\$0.30	\$(0.04)	\$0.39
Discontinued operations	0.01	(0.01)	0.01	(0.01)
Diluted earnings (loss) per share attributable to Harsco Corporation common stockholders	\$(0.17)	(a)\$0.29	\$(0.04)	(a)\$0.38
Cash dividends declared per common share	\$0.205	\$0.205	\$0.41	\$0.41
(a) Does not total due to rounding				

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

HARSCO CORPORATION

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

	Three Months Ended	
	June 30	
(In thousands)	2014	2013
Net income (loss)	\$(13,961	) \$27,376
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of \$(359) and \$(1,500) in 2014 and 2013, respectively	3,017	(34,539)
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of \$282 and \$1,206 in 2014 and 2013, respectively	2,096	(1,525)
Pension liability adjustments, net of deferred income taxes of \$333 and \$(457) in 2014 and 2013, respectively	(3,005	) 3,220
Unrealized gain on marketable securities, net of deferred income taxes of \$(5) in 2014	9	—
Total other comprehensive income (loss)	2,117	(32,844)
Total comprehensive loss	(11,844	) (5,468)
Less: Comprehensive (income) loss attributable to noncontrolling interests	100	(2,946)
Comprehensive loss attributable to Harsco Corporation	\$(11,744	) \$(8,414)
	Six Months Ended	
	June 30	
(In thousands)	2014	2013
Net income (loss)	\$(1,420	) \$36,448
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of \$(460) and 7,555 in 2014 and 2013, respectively	1,747	(46,555)
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of \$668 and \$769 in 2014 and 2013, respectively	(1,867	) 536
Pension liability adjustments, net of deferred income taxes of \$(73) and \$(4,548) in 2014 and 2013, respectively	676	31,223
Unrealized gain on marketable securities, net of deferred income taxes of \$(2) and \$(5) in 2014 and 2013, respectively	4	8
Total other comprehensive income (loss)	560	(14,788)
Total comprehensive income (loss)	(860	) 21,660
Less: Comprehensive income attributable to noncontrolling interests	(1,002	) (4,595)
Comprehensive income (loss) attributable to Harsco Corporation	\$(1,862	) \$17,065

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)	Six Months Ended		
	June 30 2014	2013	
Cash flows from operating activities:			
Net income (loss)	\$ (1,420	) \$36,448
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	84,333	121,640	
Amortization	6,046	8,847	
Change in fair value to the unit adjustment liability	5,019	—	
Deferred income tax expense (benefit)	2,274	(2,528)
Equity in (income) loss of unconsolidated entities, net	4,238	(581)
Loss on disposal of Harsco Infrastructure Segment	3,865	—	
Other, net	16,926	(2,157)
Changes in assets and liabilities:			
Accounts receivable	(30,945) (47,398)
Inventories	(12,884) (13,363)
Accounts payable	(7,172	) 9,949
Accrued interest payable	704	566	
Accrued compensation	2,072	(14,782)
Advances on contracts	32,870	(9,063)
Harsco Infrastructure Segment 2010 Restructuring Program accrual	—	(295)
Harsco 2011/2012 Restructuring Program accrual	(2,198) (10,950)
Other assets and liabilities	(29,279) (19,964)
Net cash provided by operating activities	74,449	56,369	
Cash flows from investing activities:			
Purchases of property, plant and equipment	(81,615) (120,191)
Proceeds from the Infrastructure Transaction	15,699	—	
Proceeds from sales of assets	6,120	14,853	
Purchases of businesses, net of cash acquired	(26,046) —	
Payment of unit adjustment liability	(11,160) —	
Other investing activities, net	(1,926) (2,400)
Net cash used by investing activities	(98,928) (107,738)
Cash flows from financing activities:			
Short-term borrowings, net	(1,570	) 4,188
Current maturities and long-term debt:			
Additions	108,431	127,395	
Reductions	(62,595) (51,277)
Cash dividends paid on common stock	(33,146) (33,093)
Dividends paid to noncontrolling interests	(1,586) (2,655)
Contributions from noncontrolling interests	—	4,502	
Purchase of noncontrolling interests	—	(166)
Common stock issued - options	—	371	
Other financing activities, net	(2) —	
Net cash provided by financing activities	9,532	49,265	

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Effect of exchange rate changes on cash	(1,191)	(4,145)
Net decrease in cash and cash equivalents	(16,138)	(6,249)
Cash and cash equivalents at beginning of period	93,605		95,250	
Cash and cash equivalents at end of period	\$77,467		\$89,001	

See accompanying notes to unaudited condensed consolidated financial statements.

6

Table of Contents

HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

(In thousands, except share and per share amounts)	Harsco Corporation Stockholders' Equity			Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Common Stock		Additional Paid-in Capital				
	Issued	Treasury					
Balances, January 1, 2013	\$ 140,080	\$(745,205)	\$ 152,645	\$ 1,675,490	\$(411,168)	\$ 49,782	\$ 861,624
Net income				31,043		5,405	36,448
Cash dividends declared:							
Common @ \$0.41 per share				(33,110)			(33,110)
Noncontrolling interests						(2,655)	(2,655)
Total other comprehensive loss, net of deferred income taxes of \$3,771					(13,978)	(810)	(14,788)
Contributions from noncontrolling interests						4,502	4,502
Purchase of subsidiary shares from noncontrolling interest			(292)			107	(185)
Stock options exercised, net 20,000 shares	25		362				387
Vesting of restricted stock units and other stock grants, net 60,674 shares	117	(840)	2,059				1,336
Amortization of unearned portion of stock-based compensation, net of forfeitures			2,185				2,185
Balances, June 30, 2013	\$ 140,222	\$(746,045)	\$ 156,959	\$ 1,673,423	\$(425,146)	\$ 56,331	\$ 855,744
(In thousands, except share and per share amounts)	Harsco Corporation Stockholders' Equity			Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Common Stock		Additional Paid-in Capital				
	Issued	Treasury					
Balances, January 1, 2014	\$ 140,248	\$(746,237)	\$ 159,025	\$ 1,381,321	\$(370,615)	\$ 43,093	\$ 606,835
Net income (loss)				(2,836)		1,416	(1,420)
Cash dividends declared:							
Common @ \$0.41 per share				(33,174)			(33,174)
Noncontrolling interests						(1,719)	(1,719)
Total other comprehensive income (loss), net of deferred income taxes of \$130					974	(414)	560
Contributions from noncontrolling interests						1,560	1,560
Noncontrolling interests transferred in the Infrastructure Transaction.						(905)	(905)
Vesting of restricted stock units and other stock grants, net 124,532 shares	187	(693)	1,933				1,427

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Amortization of unearned portion of stock-based compensation, net of forfeitures			2,321				2,321
Balances, June 30, 2014	\$140,435	\$(746,930)	\$163,279	\$1,345,311	\$(369,641)	\$43,031	\$575,485

See accompanying notes to unaudited condensed consolidated financial statements.

7

Table of Contents

HARSCO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

Harsco Corporation (the "Company") has prepared these unaudited condensed consolidated financial statements based on Securities and Exchange Commission rules that permit reduced disclosure for interim periods. In the opinion of management, all adjustments (all of which are of a normal recurring nature) that are necessary for a fair presentation are reflected in the unaudited condensed consolidated financial statements. The December 31, 2013 Condensed Consolidated Balance Sheet information contained in this Quarterly Report on Form 10-Q was derived from the 2013 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for an annual report. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Operating results and cash flows for the three and six months ended June 30, 2014 are not indicative of the results that may be expected for the year ending December 31, 2014.

During the second quarter of 2014, the Company recorded out-of-period adjustments that had the net effect of decreasing after-tax income by \$1.7 million, or \$0.02 per diluted share, for the second quarter of 2014. The adjustments are primarily the result of correcting expenses that should not have been capitalized in accordance with the Company's policies and revenue that should not have been recorded in accordance with a customer contract. The Company assessed the individual and aggregate impact of these adjustments on the current year and all prior periods and determined that the cumulative effect of the adjustments was not material to the expected full-year 2014 results, and did not result in a material misstatement to any previously issued annual or quarterly financial statements. Consequently, the Company recorded the \$1.7 million net adjustment in the second quarter of 2014 and has not revised any previously issued annual financial statements or interim financial data.

2. Recently Adopted and Recently Issued Accounting Standards

The following accounting standards have been adopted in 2014:

On January 1, 2014, the Company adopted Financial Accounting Standards Board ("FASB") issued changes related to a parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The changes resolve diversity in practice related to these matters. The adoption of these changes did not have a material impact on the Company's consolidated financial statements.

On January 1, 2014, the Company adopted FASB issued changes related to financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists that could be used to offset the liability for an uncertain tax position. The changes resolve diversity in practice related to these matters. The adoption of these changes did not have a material impact on the Company's consolidated financial statements.

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

In April 2014, the FASB issued changes related to reporting discontinued operations and disclosure of disposals of components of an entity. The changes modify the criteria related to what transactions constitute discontinued operations and expands disclosure requirements. The changes become effective for the Company, prospectively, on January 1, 2015. Management has determined that these changes will not have a material impact on the Company's consolidated financial statements.

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. The changes become

effective for the Company on January 1, 2017. Management is currently evaluating these changes.

Table of Contents

3. Acquisitions and Dispositions

Acquisitions

In January 2014, the Company acquired Hammco Corporation ("Hammco"), a U.S. manufacturer of high specification air-cooled heat exchangers for the natural gas and petrochemical processing markets. Hammco has been included in the results of the Harsco Industrial Segment. Inclusion of pro forma financial information for this transaction is not necessary due to the immaterial size of the acquisition. The purchase price allocation is not yet final for this acquisition.

Dispositions

In November 2013, the Company consummated the previously announced transaction to sell the Company's Harsco Infrastructure Segment into a strategic venture with Clayton, Dubilier & Rice ("CD&R") as part of a transaction that combines the Harsco Infrastructure Segment with Brand Energy & Infrastructure Services, Inc., which CD&R simultaneously acquired (the "Infrastructure Transaction"). The Company has contributed substantially all of the Company's equity interest in, and the net assets of, the Harsco Infrastructure Segment to the strategic venture in exchange for \$300 million, subject to working capital and other adjustments, and an approximate 29% equity interest in the resulting entity (the "Infrastructure strategic venture" or "Brand"). The Company's equity interest in the Infrastructure strategic venture is accounted for under the equity method of accounting as prescribed by U.S. GAAP. See Note 5, Equity Method Investments, for additional information on equity method investments.

As a result of the Infrastructure Transaction, the Company recorded an estimated loss on disposal of the Harsco Infrastructure Segment of \$271.3 million during 2013 and recorded an additional loss of \$3.2 million and \$3.9 million during the three and six months ended June 30, 2014, respectively. The Company does not anticipate any further adjustments to the loss on disposal of the Harsco Infrastructure Segment. See Note 1, Summary of Significant Accounting Policies, and Note 3, Acquisitions and Dispositions, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information on the Company's policy on impairment of long-lived assets (other than goodwill) and the loss on disposal of the Harsco Infrastructure Segment.

Additionally, the Company incurred \$0.2 million and \$1.7 million of transaction costs during the three and six months ended June 30, 2014, respectively, in conjunction with the Infrastructure Transaction.

4. Accounts Receivable and Inventories

Accounts receivable consist of the following:

(In thousands)	June 30 2014	December 31 2013
Trade accounts receivable	\$398,471	\$359,819
Less: Allowance for doubtful accounts	(13,837)	(6,638)
Trade accounts receivable, net	\$384,634	\$353,181
Other receivables (a)	\$33,604	\$46,470

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

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

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013

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Provision for doubtful accounts related to trade accounts receivable	\$7,364	\$2,621	\$7,345	\$4,838
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9

Table of Contents

The increase in the Allowance for doubtful accounts since December 31, 2013 and the Provision for doubtful accounts related to trade accounts receivable for both the three and six months ended June 30, 2014 relate to two European customers in the Harsco Metals & Minerals Segment.

Inventories consist of the following:

(In thousands)	June 30 2014	December 31 2013
Finished goods	\$25,130	\$23,112
Work-in-process	33,022	25,623
Raw materials and purchased parts	85,731	72,118
Stores and supplies	32,465	34,836
Inventories	\$176,348	\$155,689

5. Equity Method Investments

As a result of the Infrastructure Transaction, the Company possessed an approximate 29% equity interest in Brand at June 30, 2014. See Note 3, Acquisitions and Dispositions, for additional information related to the Infrastructure Transaction.

Brand is a leading provider of specialized services to the global energy, industrial and infrastructure markets that combines a global footprint, broad service offerings and rigorous operating processes to support customer required facility maintenance and turnaround needs and capital driven upgrade and expansion plans. Brand's range of services includes work access, corrosion management, atmospheric and immersion coatings, insulation services, fireproofing and refractory, mechanical services, forming and shoring and other complementary specialty services. Brand delivers services through a global network of strategically located branches in six continents with a particular focus on major hydrocarbon and power generation markets globally. In addition, Brand has co-located branches at energy-related customer facilities providing a consistent presence for required maintenance work.

The book value of the Company's investment in Brand at June 30, 2014 was \$289.7 million. The Company records the Company's proportionate share of Brand's net income or loss one quarter in arrears. Brand's results of operations for the three month period ended March 31, 2014 and the period from November 27, 2013 through March 31, 2014 are summarized as follows:

(In thousands)	Three Months Ended March 31 2014	Period From November 27 2013 Through March 31 2014 (a)
Summarized Statement of Operations Information of Brand:		
Net revenues	\$741,763	\$977,857
Gross profit	147,805	196,637
Net loss attributable to Brand Energy & Infrastructure Services, Inc. and Subsidiaries	(10,366	) (14,607)
Harsco's equity in loss of Brand	(3,009	) (4,239)

(a) The Company's equity method investment in Brand began on November 26, 2013; accordingly, there is only approximately four months of related equity loss. The results of the Harsco Infrastructure Segment from January 1, 2013 through the date of closing are reported in the Company's results of operations for 2013.

As part of the Infrastructure Transaction, the Company is required to make a quarterly payment to the Company's partner in the Infrastructure strategic venture, either (at the Company's election) (i) in cash, with total payments to equal approximately \$22 million per year on a pre-tax basis (approximately \$15 million per year after-tax), or (ii) in kind through the transfer of approximately 2.5% of the Company's ownership interest in the Infrastructure strategic venture on an annual basis (the "unit adjustment liability"). The resulting liability is reflected in the caption, Unit adjustment liability, on the Company's Condensed Consolidated Balance Sheets. The Company will recognize the change in fair value to the unit adjustment liability each period until the Company is no longer required to make these payments or chooses not to make these payments. The change in fair value to the unit adjustment liability is a non-cash expense. For the three and six months ended June 30, 2014, the Company recognized \$2.5 million and \$5.0 million, respectively, of change in fair value to the unit adjustment liability.

Table of Contents

The Company's obligation to make a quarterly payment will cease upon the earlier of (i) Brand achieving \$487.0 million in last twelve months' earnings before interest, taxes, depreciation and amortization for three quarters, which need not be consecutive, or (ii) eight years after the closing of the Infrastructure Transaction. In addition, upon the initial public offering of Brand, the Company's quarterly payment obligation will decrease by the portion of CD&R's ownership interest sold or eliminated completely once CD&R's ownership interest in Brand falls below 20%. In the event of a liquidation of Brand, CD&R is entitled to a liquidation preference of approximately \$336 million, plus any quarterly payments that had been paid in kind.

The Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 include balances related to the unit adjustment liability of \$100.2 million and \$106.3 million, respectively, in the current and non-current captions, Unit adjustment liability.

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

Within Brand's equity structure, there exists the ability for the issuance of equity incentive compensation for certain executive employees, which has the potential of diluting the Company's ownership interest in Brand by approximately 2.9% if all such awards are issued and vested.

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

(In thousands)	June 30 2014	December 31 2013
Balances due from Brand	\$8,872	\$85,908
Balances due to Brand	41,306	149,325

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

No instances of impairment were noted on the Company's equity method investments as of June 30, 2014.

6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	June 30 2014	December 31 2013
Land	\$18,796	\$16,652
Land improvements	14,245	13,615
Buildings and improvements	214,169	192,346
Machinery and equipment	2,003,319	1,969,493
Uncompleted construction	86,959	86,508
Gross property, plant and equipment	2,337,488	2,278,614
Less: Accumulated depreciation	(1,628,877)	(1,567,268)
Property, plant and equipment, net	\$708,611	\$711,346

Table of Contents

7. 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, 2014:

(In thousands)	Harsco Metals & Minerals Segment	Harsco Industrial Segment	Harsco Rail Segment	Consolidated Totals
Balance at December 31, 2013	\$421,955	\$—	\$9,310	\$431,265
Changes to goodwill (a)	—	6,717	—	6,717
Foreign currency translation	2,186	—	—	2,186
Balance at June 30, 2014	\$424,141	\$		