

HARSCO CORP  
Form 10-Q  
May 07, 2015  
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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 March 31, 2015

or

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

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

HARSCO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

23-1483991

(State or other jurisdiction of incorporation or organization)

(I.R.S. employer identification number)

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

17011  
(Zip Code)

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

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

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

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

Large accelerated filer ✓

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

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

YES o NO ✓

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

Class

Outstanding at April 30, 2015

Common stock, par value \$1.25 per share

80,087,180

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HARSCO CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	March 31 2015	December 31 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$66,549	\$62,843
Trade accounts receivable, net	332,005	325,104
Other receivables	21,709	28,145
Inventories	194,598	178,922
Assets held-for-sale	1,328	1,355
Other current assets	85,860	87,110
Total current assets	702,049	683,479
Investments	284,693	288,505
Property, plant and equipment, net	623,364	663,244
Goodwill	402,754	416,155
Intangible assets, net	58,385	58,524
Other assets	192,138	159,320
Total assets	\$2,263,383	\$2,269,227
<b>LIABILITIES</b>		
Current liabilities:		
Short-term borrowings	\$18,643	\$16,748
Current maturities of long-term debt	24,899	25,188
Accounts payable	143,823	146,506
Accrued compensation	41,824	53,780
Income taxes payable	6,732	1,985
Dividends payable	16,418	16,535
Insurance liabilities	12,192	12,415
Advances on contracts	116,514	117,398
Due to unconsolidated affiliate	8,317	8,142
Unit adjustment liability	22,320	22,320
Other current liabilities	145,356	144,543
Total current liabilities	557,038	565,560
Long-term debt	875,277	829,709
Deferred income taxes	7,164	6,379
Insurance liabilities	35,837	35,470
Retirement plan liabilities	316,948	350,889
Due to unconsolidated affiliate	20,469	20,169
Unit adjustment liability	68,107	71,442
Other liabilities	34,722	37,699
Total liabilities	1,915,562	1,917,317
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>HARSCO CORPORATION STOCKHOLDERS' EQUITY</b>		
Preferred stock	—	—
Common stock	140,489	140,444
Additional paid-in capital	166,346	165,666

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Accumulated other comprehensive loss	(527,475	) (532,256	)
Retained earnings	1,282,465	1,283,549	
Treasury stock	(760,227	) (749,815	)
Total Harsco Corporation stockholders' equity	301,598	307,588	
Noncontrolling interests	46,223	44,322	
Total equity	347,821	351,910	
Total liabilities and equity	\$2,263,383	\$2,269,227	

See accompanying notes to unaudited condensed consolidated financial statements.

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## HARSCO CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended	
	March 31	
(In thousands, except per share amounts)	2015	2014
Revenues from continuing operations:		
Service revenues	\$287,428	\$350,794
Product revenues	164,151	161,689
Total revenues	451,579	512,483
Costs and expenses from continuing operations:		
Cost of services sold	245,861	294,308
Cost of products sold	115,221	115,466
Selling, general and administrative expenses	63,902	66,794
Research and development expenses	919	2,663
Loss on disposal of the Harsco Infrastructure Segment and transaction costs	—	1,681
Other income	(13,205)	(656)
Total costs and expenses	412,698	480,256
Operating income from continuing operations	38,881	32,227
Interest income	256	297
Interest expense	(11,884)	(11,421)
Change in fair value to the unit adjustment liability	(2,245)	(2,546)
Income from continuing operations before income taxes and equity income	25,008	18,557
Income tax expense	(12,855)	(5,311)
Equity in income (loss) of unconsolidated entities, net	4,083	(1,230)
Income from continuing operations	16,236	12,016
Discontinued operations:		
Loss on disposal of discontinued business	(646)	(640)
Income tax benefit related to discontinued business	239	237
Loss from discontinued operations	(407)	(403)
Net income	15,829	11,613
Less: Net income attributable to noncontrolling interests	(565)	(1,402)
Net income attributable to Harsco Corporation	\$15,264	\$10,211
Amounts attributable to Harsco Corporation common stockholders:		
Income from continuing operations, net of tax	\$15,671	\$10,614
Loss from discontinued operations, net of tax	(407)	(403)
Net income attributable to Harsco Corporation common stockholders	\$15,264	\$10,211
Weighted-average shares of common stock outstanding	80,240	80,816
Basic earnings (loss) per common share attributable to Harsco Corporation common stockholders:		
Continuing operations	\$0.20	\$0.13
Discontinued operations	(0.01)	—
Basic earnings per share attributable to Harsco Corporation common stockholders	\$0.19	\$0.13
Diluted weighted-average shares of common stock outstanding	80,352	81,022
Diluted earnings (loss) per common share attributable to Harsco Corporation common stockholders:		
Continuing operations	\$0.20	\$0.13
Discontinued operations	(0.01)	—
Diluted earnings per share attributable to Harsco Corporation common stockholders	\$0.19	\$0.13

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Cash dividends declared per common share	\$0.205	\$0.205
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See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)	Three Months Ended	
	March 31	
	2015	2014
Net income	\$15,829	\$11,613
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of \$(1,650) and \$(101) in 2015 and 2014, respectively	(28,842	) (1,270
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of \$(1,522) and \$386 in 2015 and 2014, respectively	7,574	(3,963
Pension liability adjustments, net of deferred income taxes of \$(3,091) and \$(406) in 2015 and 2014, respectively	25,293	3,681
Unrealized loss on marketable securities, net of deferred income taxes of \$4 and \$3 in 2015 and 2014, respectively	(8	) (5
Total other comprehensive income (loss)	4,017	(1,557
Total comprehensive income	19,846	10,056
Less: Comprehensive (income) loss attributable to noncontrolling interests	199	(1,102
Comprehensive income attributable to Harsco Corporation	\$20,045	\$8,954

See accompanying notes to unaudited condensed consolidated financial statements.

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## HARSCO CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended	
	March 31	
(In thousands)	2015	2014
Cash flows from operating activities:		
Net income	\$ 15,829	\$ 11,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	36,654	41,834
Amortization	3,237	3,001
Change in fair value to the unit adjustment liability	2,245	2,546
Deferred income tax expense	2,526	2,352
Equity in (income) loss of unconsolidated entities, net	(4,083	) 1,230
Loss on disposal of Harsco Infrastructure Segment	—	242
Other, net	(9,612	) (750
Changes in assets and liabilities:		
Accounts receivable	(20,151	) (49,455
Inventories	(19,496	) (4,273
Accounts payable	5,775	(6,246
Accrued interest payable	6,828	8,207
Accrued compensation	(9,019	) (3,586
Advances on contracts	8,693	34,006
Harsco 2011/2012 Restructuring Program accrual	(188	) (528
Other assets and liabilities	(8,765	) (12,709
Net cash provided by operating activities	10,473	27,484
Cash flows from investing activities:		
Purchases of property, plant and equipment	(31,630	) (39,839
Proceeds from the Infrastructure Transaction	—	3,296
Proceeds from sales of assets	6,781	3,806
Purchases of businesses, net of cash acquired	(6,828	) (26,046
Payment of unit adjustment liability	(5,580	) (5,580
Other investing activities, net	2,360	(1,178
Net cash used by investing activities	(34,897	) (65,541
Cash flows from financing activities:		
Short-term borrowings, net	4,898	(1,721
Current maturities and long-term debt:		
Additions	52,039	65,000
Reductions	(5,147	) (18,424
Cash dividends paid on common stock	(16,443	) (16,562
Common stock acquired for treasury	(12,143	) —
Other financing activities, net	(2,049	) —
Net cash provided by financing activities	21,155	28,293
Effect of exchange rate changes on cash	6,975	(479
Net increase (decrease) in cash and cash equivalents	3,706	(10,243
Cash and cash equivalents at beginning of period	62,843	93,605
Cash and cash equivalents at end of period	\$ 66,549	\$ 83,362



See accompanying notes to unaudited condensed consolidated financial statements.

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## HARSCO CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

(In thousands, except share and per share amounts)	Harsco Corporation Stockholders' Equity				Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Common Stock		Additional Paid-in Capital	Retained Earnings			
	Issued	Treasury					
Balances, January 1, 2014	\$ 140,248	\$(746,237)	\$ 159,025	\$ 1,372,041	\$(370,615)	\$ 43,093	\$ 597,555
Net income				10,211		1,402	11,613
Cash dividends declared:							
Common @ \$0.205 per share				(16,572)			(16,572)
Noncontrolling interests						(133)	(133)
Total other comprehensive loss, net of deferred income taxes of \$(118)					(1,257)	(300)	(1,557)
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 39,941 shares	79	(593)	1,571				1,057
Amortization of unearned portion of stock-based compensation, net of forfeitures			452				452
Balances, March 31, 2014	\$ 140,327	\$(746,830)	\$ 161,048	\$ 1,365,680	\$(371,872)	\$ 44,717	\$ 593,070
(In thousands, except share and per share amounts)	Harsco Corporation Stockholders' Equity				Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Common Stock		Additional Paid-in Capital	Retained Earnings			
	Issued	Treasury					
Balances, January 1, 2015	\$ 140,444	\$(749,815)	\$ 165,666	\$ 1,283,549	\$(532,256)	\$ 44,322	\$ 351,910
Net income				15,264		565	15,829
Cash dividends declared:							
Common @ \$0.205 per share				(16,348)			(16,348)
Total other comprehensive income, net of deferred income taxes of \$(6,259)					4,781	(764)	4,017
Contributions from noncontrolling interests						2,100	2,100
Vesting of restricted stock units and other stock grants, net 23,962 shares	45	(192)	(81)				(228)
Treasury shares repurchased, 596,632 shares		(10,220)					(10,220)
Amortization of unearned portion of stock-based compensation, net of forfeitures			761				761

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Balances, March 31, 2015	\$140,489	\$(760,227)	\$166,346	\$1,282,465	\$(527,475)	\$46,223	\$347,821
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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 presentation are reflected in the unaudited condensed consolidated financial statements. The December 31, 2014 Condensed Consolidated Balance Sheet information contained in this Quarterly Report on Form 10-Q was derived from the 2014 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for an annual report. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Operating results and cash flows for the three months ended March 31, 2015 are not indicative of the results that may be expected for the year ending December 31, 2015.

## 2. Revised Financial Statements

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

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

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

HARSCO CORPORATION STOCKHOLDERS' EQUITY

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

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(In thousands, except per share amounts)	Three Months Ended March 31, 2014		
	As Previously Reported	Revision	As Revised
Revenues from continuing operations:			
Service revenues	\$351,010	\$(216	) \$350,794
Total revenues	512,699	(216	) 512,483
Costs and expenses from continuing operations:			
Cost of services sold	\$293,999	\$309	\$294,308
Research and development expenses	2,619	44	2,663
Loss on disposal of the Harsco Infrastructure Segment and transaction costs	2,138	(457	) 1,681
Total costs and expenses	480,360	(104	) 480,256
Operating income from continuing operations	\$32,339	\$(112	) \$32,227
Income from continuing operations before income taxes and equity income	18,669	(112	) 18,557
Income tax expense	(4,495	) (816	) (5,311
Income from continuing operations	12,944	(928	) 12,016
Net income	12,541	(928	) 11,613
Net income attributable to Harsco Corporation	11,139	(928	) 10,211
Amounts attributable to Harsco Corporation common stockholders:			
Income from continuing operations, net of tax	\$11,542	\$(928	) \$10,614
Net income attributable to Harsco Corporation common stockholders	11,139	(928	) 10,211