

HARSCO CORP
Form 10-Q
May 02, 2018
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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, 2018

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

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

HARSCO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 23-1483991
(State or other jurisdiction of incorporation or organization) (I.R.S. employer identification number)

350 Poplar Church Road, Camp Hill, Pennsylvania 17011
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

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

Class Outstanding at April 30, 2018
Common stock, par value \$1.25 per share 80,574,856

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	March 31 2018	December 31 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$64,780	\$62,098
Restricted cash	2,747	4,111
Trade accounts receivable, net	292,966	288,034
Other receivables	24,813	20,224
Inventories	132,352	178,293
Current portion of contract assets	23,871	—
Other current assets	41,227	39,332
Total current assets	582,756	592,092
Property, plant and equipment, net	482,837	479,747
Goodwill	406,706	401,758
Intangible assets, net	37,756	38,251
Contract assets	3,566	—
Deferred income tax assets	49,900	51,574
Other assets	19,100	15,263
Total assets	\$1,582,621	\$1,578,685
LIABILITIES		
Current liabilities:		
Short-term borrowings	\$5,160	\$8,621
Current maturities of long-term debt	10,065	11,208
Accounts payable	137,254	126,249
Accrued compensation	35,014	60,451
Income taxes payable	7,455	5,106
Insurance liabilities	11,061	11,167
Current portion of advances on contracts	38,147	117,958
Other current liabilities	145,501	133,368
Total current liabilities	389,657	474,128
Long-term debt	611,695	566,794
Insurance liabilities	23,017	22,385
Retirement plan liabilities	248,894	259,367
Advances on contracts	21,837	—
Other liabilities	41,176	40,846
Total liabilities	1,336,276	1,363,520
COMMITMENTS AND CONTINGENCIES		
HARSCO CORPORATION STOCKHOLDERS' EQUITY		
Preferred stock	—	—
Common stock	141,286	141,110
Additional paid-in capital	183,310	180,201
Accumulated other comprehensive loss	(543,217)	(546,582)
Retained earnings	1,179,516	1,157,801

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Treasury stock	(762,788) (762,079)
Total Harsco Corporation stockholders' equity	198,107	170,451	
Noncontrolling interests	48,238	44,714	
Total equity	246,345	215,165	
Total liabilities and equity	\$1,582,621	\$1,578,685	

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)	2018	2017	
Revenues from continuing operations:			
Service revenues	\$254,962	\$240,609	
Product revenues	153,076	131,932	
Total revenues	408,038	372,541	
Costs and expenses from continuing operations:			
Cost of services sold	199,373	189,482	
Cost of products sold	111,980	98,790	
Selling, general and administrative expenses	57,083	53,937	
Research and development expenses	1,239	831	
Other expenses, net	1,822	894	
Total costs and expenses	371,497	343,934	
Operating income from continuing operations	36,541	28,607	
Interest income	498	512	
Interest expense	(9,583)	(11,653))
Defined benefit pension income (expense)	839	(699))
Income from continuing operations before income taxes	28,295	16,767	
Income tax expense	(8,266)	(6,253))
Income from continuing operations	20,029	10,514	
Discontinued operations:			
Loss on disposal of discontinued business	(580)	(588))
Income tax benefit related to discontinued business	128	211	
Loss from discontinued operations	(452)	(377))
Net income	19,577	10,137	
Less: Net income attributable to noncontrolling interests	(1,769)	(1,247))
Net income attributable to Harsco Corporation	\$17,808	\$8,890	
Amounts attributable to Harsco Corporation common stockholders:			
Income from continuing operations, net of tax	\$18,260	\$9,267	
Loss from discontinued operations, net of tax	(452)	(377))
Net income attributable to Harsco Corporation common stockholders	\$17,808	\$8,890	
Weighted-average shares of common stock outstanding	80,650	80,385	
Basic earnings (loss) per common share attributable to Harsco Corporation common stockholders:			
Continuing operations	\$0.23	\$0.12	
Discontinued operations	(0.01)	—	
Basic earnings per share attributable to Harsco Corporation common stockholders	\$0.22	\$0.11	(a)
Diluted weighted-average shares of common stock outstanding	83,544	82,263	
Diluted earnings (loss) per common share attributable to Harsco Corporation common stockholders:			
Continuing operations	\$0.22	\$0.11	
Discontinued operations	(0.01)	—	
Diluted earnings per share attributable to Harsco Corporation common stockholders	\$0.21	\$0.11	

(a) Does not total due to rounding

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31	
(In thousands)	2018	2017
Net income	\$19,577	\$10,137
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes of \$1,627 and \$393 in 2018 and 2017, respectively	12,501	16,561
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of \$(839) and \$256 in 2018 and 2017, respectively	2,677	(387)
Pension liability adjustments, net of deferred income taxes of \$(325) and \$(522) in 2018 and 2017, respectively	(9,001)	1,205
Unrealized gain (loss) on marketable securities, net of deferred income taxes of \$4 and \$(3) in 2018 and 2017, respectively	(14)	6
Total other comprehensive income	6,163	17,385
Total comprehensive income	25,740	27,522
Less: Comprehensive income attributable to noncontrolling interests	(3,047)	(1,633)
Comprehensive income attributable to Harsco Corporation	\$22,693	\$25,889

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)	2018	2017
Cash flows from operating activities:		
Net income	\$19,577	\$10,137
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	31,418	30,207
Amortization	1,934	2,021
Deferred income tax expense (benefit)	4,635	(221)
Dividends from unconsolidated entities	—	19
Other, net	1,944	5,131
Changes in assets and liabilities:		
Accounts receivable	(4,848)	(27,882)
Inventories	(11,490)	(755)
Contract assets	(5,698)	—
Accounts payable	7,340	(541)
Accrued interest payable	51	286
Accrued compensation	(26,131)	(12,352)
Advances on contracts	(7,348)	(4,998)
Retirement plan liabilities, net	(12,252)	(8,381)
Other assets and liabilities	(7,375)	1,205
Net cash used by operating activities	(8,243)	(6,124)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(26,897)	(16,989)
Proceeds from sales of assets	377	1,006
Net proceeds (payments) from settlement of foreign currency forward exchange contracts	(3,822)	33
Net cash used by investing activities	(30,342)	(15,950)
Cash flows from financing activities:		
Short-term borrowings, net	(3,659)	3,655
Current maturities and long-term debt:		
Additions	46,000	24,000
Reductions	(2,944)	(14,345)
Sale of noncontrolling interests	477	—
Stock-based compensation - Employee taxes paid	(709)	(53)
Deferred financing costs	—	(36)
Net cash provided by financing activities	39,165	13,221
Effect of exchange rate changes on cash and cash equivalents, including restricted cash	738	1,403
Net increase (decrease) in cash and cash equivalents, including restricted cash	1,318	(7,450)
Cash and cash equivalents, including restricted cash, at beginning of period	66,209	71,879
Cash and cash equivalents, including restricted cash, at end of period	\$67,527	\$64,429

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 amounts)	Harsco Corporation Stockholders' Equity						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Issued	Treasury						
Balances, January 1, 2017	\$ 140,625	\$(760,391)	\$ 172,101	\$ 1,150,688	\$(606,722)	\$ 41,262	\$ 137,563
Adoption of new accounting standard			1,106	(709)			397
Net income				8,890		1,247	10,137
Total other comprehensive income, net of deferred income taxes of \$124					16,999	386	17,385
Vesting of restricted stock units and other stock grants, net 7,254 shares	14	(53)	(14)				(53)
Amortization of unearned portion of stock-based compensation, net of forfeitures			3,104				3,104
Balances, March 31, 2017	\$ 140,639	\$(760,444)	\$ 176,297	\$ 1,158,869	\$(589,723)	\$ 42,895	\$ 168,533
(In thousands)	Harsco Corporation Stockholders' Equity						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Issued	Treasury						
Balances, January 1, 2018	\$ 141,110	\$(762,079)	\$ 180,201	\$ 1,157,801	\$(546,582)	\$ 44,714	\$ 215,165
Adoption of new accounting standards (See Note 2)				3,907	(1,520)		2,387
Net income				17,808		1,769	19,577
Sale of subsidiary shares to noncontrolling interest						477	477
Total other comprehensive income, net of deferred income taxes of \$467					4,885	1,278	6,163
Stock Appreciation Rights exercised, net 2,560 shares	5	(26)	(5)				(26)
Vesting of restricted stock units and other stock grants, net 102,695 shares	171	(683)	(171)				(683)
Amortization of unearned portion of stock-based compensation, net of forfeitures			3,285				3,285
Balances, March 31, 2018	\$ 141,286	\$(762,788)	\$ 183,310	\$ 1,179,516	\$(543,217)	\$ 48,238	\$ 246,345

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 (the "SEC") 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, 2017 Condensed Consolidated Balance Sheet information contained in this Quarterly Report on Form 10-Q was derived from the 2017 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, 2017. Operating results and cash flows for the three months ended March 31, 2018 are not indicative of the results that may be expected for the year ending December 31, 2018.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform with current year classifications.

2. Recently Adopted and Recently Issued Accounting Standards

The following accounting standards have been adopted in 2018:

On January 1, 2018, the Company adopted changes, with subsequent amendments, issued by the Financial Accounting Standards Board ("FASB") related to the recognition of revenue from contracts with customers. The changes clarify the principles for recognizing revenue and develop a common revenue standard. The core principle of the changes is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of these changes resulted in the following modifications to the Company's revenue recognition process:

Harsco Industrial Segment - Air-X-Changers - The timing of revenue recognition for air-cooled heat exchanger sales, which the Company historically recognized upon the completion of the efforts associated with these arrangements, is now recognized over time with the impact of increasing revenue in earlier periods. This change also impacted the Company's Condensed Consolidated Balance Sheets by decreasing both Inventories and Advances on contracts; and creating a new caption and establishing a balance related to Contract assets.

Harsco Rail Segment - The timing of revenue recognition for certain railway track maintenance equipment sales, which the Company historically recognized upon the completion of the efforts associated with these arrangements, is now recognized over time with the impact of increasing revenue in earlier periods. This change also impacted the Company's Condensed Consolidated Balance Sheets by decreasing both Inventories and Advances on contracts; and creating a new caption and establishing a balance related to Contract assets. In addition, certain advance payments received from customers, which provide a significant benefit of financing and are expected to be outstanding longer than twelve months, are treated as significant financing components to the related transactions and the Company will increase the overall transaction price with a corresponding increase in interest expense.

Additionally, the Company's disclosure related to revenue recognition has been expanded in accordance with the FASB changes. Please refer to Note 12, Revenue Recognition for additional information.

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The Company chose to implement the impact of the FASB changes utilizing the modified retrospective transition method, using the following practical expedients:

The Company has elected to apply the changes only to revenue arrangements that were not completed as of January 1, 2018; and

The Company has elected to reflect the aggregate effect of all contract modifications that occurred prior to the beginning of the earliest reported period when (i) identifying the satisfied and unsatisfied performance obligations; (ii) determining the transaction price; and (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

Comparative information has not been restated and continues to be reported under U.S. GAAP in effect for those periods.

The cumulative effect of the changes made to the Condensed Consolidated Balance Sheet at January 1, 2018 was as follows:

(In thousands)	Balance at December 31, 2017	Impact of Adoption	Balance at January 1, 2018
ASSETS			
Current assets:			
Trade accounts receivable, net	\$288,034	\$ 532	\$288,566
Inventories	178,293	(59,793)	118,500
Current portion of contract assets	—	18,248	18,248
Other current assets	39,332	179	39,511
Total current assets	592,092	(40,834)	551,258
Contract assets	—	3,566	3,566
Other assets	15,263	1,337	16,600
Total assets	1,578,685	(35,931)	1,542,754
LIABILITIES			
Current liabilities:			
Current portion of advances on contracts	117,958	(78,507)	39,451
Other current liabilities	133,368	13,995	147,363
Total current liabilities	474,128	(64,512)	409,616
Advances on contracts	—	24,564	24,564
Other liabilities	40,846	1,580	42,426
Total liabilities	1,363,520	(38,368)	1,325,152
HARSCO CORPORATION STOCKHOLDERS' EQUITY			
Accumulated other comprehensive loss	(546,582)	(1,520)	(548,102)
Retained earnings	1,157,801	3,957	1,161,758
Total Harsco Corporation stockholders' equity	170,451	2,437	172,888
Total equity	215,165	2,437	217,602
Total liabilities and equity	1,578,685	(35,931)	1,542,754

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The impact of modifying the Company's Condensed Consolidated Balance Sheet at March 31, 2018 and the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 are as follows:

(In thousands)	March 31, 2018		As Reported - Less Impact of Adoption
	As Reported	Impact of Adoption	
ASSETS			
Current assets:			
Trade accounts receivable, net	\$292,966	\$ (668)	\$292,298
Inventories	132,352	71,195	203,547
Current portion of contract assets	23,871	(23,871)	—
Other current assets	41,227	(177)	41,050
Total current assets	582,756	46,479	629,235
Contract assets	3,566	(3,566)	—
Deferred income tax assets	49,900	947	50,847
Other assets	19,100	(1,285)	17,815
Total assets	1,582,621	42,575	1,625,196
LIABILITIES			
Current liabilities:			
Current portion of advances on contracts	38,147	78,809	116,956
Other current liabilities	145,501	(11,801)	133,700
Total current liabilities	389,657	67,008	456,665
Advances on contracts	21,837	(21,837)	—
Other liabilities	41,176	(381)	40,795
Total liabilities	1,336,276	44,790	1,381,066
HARSCO CORPORATION STOCKHOLDERS' EQUITY			
Accumulated other comprehensive loss	(543,217)	1,827	(541,390)
Retained earnings	1,179,516	(4,042)	1,175,474
Total Harsco Corporation stockholders' equity	198,107	(2,215)	195,892
Total equity	246,345	(2,215)	244,130
Total liabilities and equity	1,582,621	42,575	1,625,196

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	Three Months Ended March 31, 2018		
(In thousands, except per share amounts)	As Reported	Impact of Adoption	As Reported - Less Impact of Adoption
Revenues from continuing operations:			