

HARSCO CORP
Form 10-Q
November 01, 2012
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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 September 30, 2012

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 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 October 15, 2012
Common stock, par value \$1.25 per share	80,584,628

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARSCO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	September 30 2012	December 31 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 113,740	\$ 121,184
Trade accounts receivable, net	619,403	618,475
Other receivables	40,296	44,431
Inventories	262,512	241,934
Other current assets	105,465	133,407
Total current assets	1,141,416	1,159,431
Property, plant and equipment, net	1,245,180	1,274,484
Goodwill	691,378	680,901
Intangible assets, net	81,657	93,501
Other assets	140,300	130,560
Total assets	\$ 3,299,931	\$ 3,338,877
LIABILITIES		
Current liabilities:		
Short-term borrowings	\$ 12,982	\$ 51,414
Current maturities of long-term debt	1,885	3,558
Accounts payable	231,320	252,329
Accrued compensation	95,493	92,603
Income taxes payable	10,812	8,409
Dividends payable	16,520	16,498
Insurance liabilities	21,907	25,075
Advances on contracts	76,375	111,429
Other current liabilities	206,215	220,953
Total current liabilities	673,509	782,268
Long-term debt	953,634	853,800
Deferred income taxes	24,420	27,430
Insurance liabilities	62,676	60,864
Retirement plan liabilities	328,994	343,842
Other liabilities	58,109	50,755
Total liabilities	2,101,342	2,118,959
COMMITMENTS AND CONTINGENCIES		
HARSCO CORPORATION STOCKHOLDERS' EQUITY		
Preferred stock	—	—
Common stock	140,080	139,914
Additional paid-in capital	152,943	149,066
Accumulated other comprehensive loss	(356,062)	(364,191)
Retained earnings	1,956,383	1,996,234
Treasury stock	(745,205)	(744,644)
Total Harsco Corporation stockholders' equity	1,148,139	1,176,379
Noncontrolling interests	50,450	43,539
Total equity	1,198,589	1,219,918

Total liabilities and equity	\$3,299,931	\$3,338,877
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See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2012	2011	2012	2011
Revenues from continuing operations:				
Service revenues	\$571,892	\$682,885	\$1,769,415	\$2,059,928
Product revenues	184,891	172,979	510,278	450,082
Total revenues	756,783	855,864	2,279,693	2,510,010
Costs and expenses from continuing operations:				
Cost of services sold	453,304	545,008	1,406,727	1,643,202
Cost of products sold	126,683	126,395	351,707	305,833
Selling, general and administrative expenses	121,856	129,006	376,653	407,957
Research and development expenses	2,162	1,577	6,908	4,290
Other expenses	2,383	3,050	65,351	4,431
Total costs and expenses	706,388	805,036	2,207,346	2,365,713
Operating income from continuing operations	50,395	50,828	72,347	144,297
Interest income	1,449	683	3,005	2,022
Interest expense	(11,609)	(12,230)	(36,041)	(36,809)
Income from continuing operations before income taxes and equity income	40,235	39,281	39,311	109,510
Income tax expense	(13,545)	(7,078)	(28,489)	(24,813)
Equity in income of unconsolidated entities, net	182	194	479	530
Income from continuing operations	26,872	32,397	11,301	85,227
Discontinued operations:				
Loss on disposal of discontinued business	(52)	(636)	(1,217)	(2,708)
Income tax benefit related to discontinued business	248	229	685	1,018
Income (loss) from discontinued operations	196	(407)	(532)	(1,690)
Net income	27,068	31,990	10,769	83,537
Less: Net income attributable to noncontrolling interests	(664)	(190)	(1,023)	(2,579)
Net income attributable to Harsco Corporation	\$26,404	\$31,800	\$9,746	\$80,958
Amounts attributable to Harsco Corporation common stockholders:				
Income from continuing operations, net of tax	\$26,208	\$32,207	\$10,278	\$82,648
Income (loss) from discontinued operations, net of tax	196	(407)	(532)	(1,690)
Net income attributable to Harsco Corporation common stockholders	\$26,404	\$31,800	\$9,746	\$80,958
Weighted-average shares of common stock outstanding	80,659	80,767	80,623	80,737
Basic earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	\$0.32	\$0.40	\$0.13	\$1.02
Discontinued operations	—	(0.01)	(0.01)	(0.02)
Basic earnings per share attributable to Harsco Corporation common stockholders	\$0.33	(a) \$0.39	\$0.12	\$1.00

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Diluted weighted-average shares of common stock outstanding	80,910	81,037	80,863	80,997
Diluted earnings (loss) per common share attributable to Harsco Corporation common stockholders:				
Continuing operations	\$0.32	\$0.40	\$0.13	\$1.02
Discontinued operations	—	(0.01)	(0.01)	(0.02)
Diluted earnings per share attributable to Harsco Corporation common stockholders	\$0.33	(a) \$0.39	\$0.12	\$1.00
Cash dividends declared per common share	\$0.205	\$0.205	\$0.615	\$0.615

(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 September 30	
(In thousands)	2012	2011
Net income	\$27,068	\$31,990
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes	38,812	(95,047)
Net gain (loss) on cash flow hedging instruments, net of deferred income taxes of \$242 and \$(2,107) in 2012 and 2011, respectively	(760)	8,355)
Pension liability adjustments, net of deferred income taxes of \$1,514 and \$(3,691) in 2012 and 2011, respectively	(10,143)	9,184)
Unrealized gain (loss) on marketable securities, net of deferred income taxes of \$(1) and \$7 in 2012 and 2011, respectively	1	(11)
Total other comprehensive income (loss)	27,910	(77,519)
Total comprehensive income (loss)	54,978	(45,529)
Less: Comprehensive loss attributable to noncontrolling interests	1,265	610
Comprehensive income (loss) attributable to Harsco Corporation	\$56,243	\$(44,919)
	Nine Months Ended September 30	
(In thousands)	2012	2011
Net income	\$10,769	\$83,537
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of deferred income taxes	7,733	(40,815)
Net gain on cash flow hedging instruments, net of deferred income taxes of \$(653) and \$(3,849) in 2012 and 2011, respectively	1,941	15,043
Pension liability adjustments, net of deferred income taxes of \$189 and \$(2,744) in 2012 and 2011, respectively	(1,294)	6,948)
Unrealized gain (loss) on marketable securities, net of deferred income taxes of \$(2) and \$9 in 2012 and 2011, respectively	3	(14)
Total other comprehensive income (loss)	8,383	(18,838)
Total comprehensive income	19,152	64,699
Less: Comprehensive (income) loss attributable to noncontrolling interests	1,277	(2,538)
Comprehensive income attributable to Harsco Corporation	\$20,429	\$62,161

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended	
	September 30	
(In thousands)	2012	2011
Cash flows from operating activities:		
Net income	\$ 10,769	\$ 83,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	188,182	207,330
Amortization	15,662	25,950
Equity in income of unconsolidated entities, net	(479)	(530)
Dividends or distributions from unconsolidated entities	308	160
Harsco 2011/2012 Restructuring Program non-cash adjustments	21,787	—
Other, net	(29,263)	(3,674)
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Accounts receivable	(1,247)	(76,972)
Inventories	(23,298)	(6,667)
Accounts payable	(24,719)	3,150
Accrued interest payable	5,786	6,651
Accrued compensation	2,286	13,640
Harsco Infrastructure Segment 2010 Restructuring Program accrual	(4,755)	(16,697)
Harsco 2011/2012 Restructuring Program accrual	(8,050)	—
Other assets and liabilities	(41,600)	(45,771)
Net cash provided by operating activities	111,369	190,107
Cash flows from investing activities:		
Purchases of property, plant and equipment	(172,770)	(240,820)
Proceeds from sales of assets	42,889	37,180
Purchases of businesses, net of cash acquired	(517)	(1,938)
Other investing activities, net	457	10,115
Net cash used by investing activities	(129,941)	(195,463)
Cash flows from financing activities:		
Short-term borrowings, net	(39,302)	28,941
Current maturities and long-term debt:		
Additions	249,034	215,422
Reductions	(151,399)	(210,761)
Cash dividends paid on common stock	(49,548)	(49,599)
Dividends paid to noncontrolling interests	(2,264)	(3,322)
Contributions from noncontrolling interests	8,097	9,074
Common stock issued - options	725	1,668
Other financing activities, net	(2,709)	(1)
Net cash provided (used) by financing activities	12,634	(8,578)
Effect of exchange rate changes on cash	(1,506)	(4,016)
Net decrease in cash and cash equivalents	(7,444)	(17,950)
Cash and cash equivalents at beginning of period	121,184	124,238
Cash and cash equivalents at end of period	\$ 113,740	\$ 106,288

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			Retained Earnings	Accumulated		Noncontrolling Interests	Total
	Common Stock	Additional Paid-in Capital	Other Comprehensive Loss		Interests	Total		
	Issued	Treasury						
Balances, January 1, 2011	\$ 139,514	\$(737,106)	\$ 141,298	\$ 2,073,920	\$(185,932)	\$ 36,451	\$ 1,468,145	
Net income				80,958		2,579	83,537	
Cash dividends declared:								
Common @ \$0.615 per share				(49,667)			(49,667)	
Noncontrolling interests						(3,322)	(3,322)	
Translation adjustments, net of deferred income taxes of \$(656)					(40,774)	(41)	(40,815)	
Cash flow hedging instrument adjustments, net of deferred income taxes of \$(3,849)					15,043		15,043	
Contributions from noncontrolling interests						9,592	9,592	
Pension liability adjustments, net of deferred income taxes of \$(2,744)					6,948		6,948	
Marketable securities unrealized loss, net of deferred income taxes of \$9					(14)		(14)	
Stock options exercised, 106,022 shares	133		1,508				1,641	
Vesting of restricted stock units, net 92,630 shares	151	(910)	985				226	
Amortization of unearned portion of stock-based compensation, net of forfeitures			2,720				2,720	
Balances, September 30, 2011	\$ 139,798	\$(738,016)	\$ 146,511	\$ 2,105,211	\$(204,729)	\$ 45,259	\$ 1,494,034	

(In thousands, except share and per share amounts)	Harsco Corporation Stockholders' Equity			Retained Earnings	Accumulated		Noncontrolling Interests	Total
	Common Stock	Additional Paid-in Capital	Other Comprehensive Loss		Interests	Total		
	Issued	Treasury						
Balances, January 1, 2012	\$ 139,914	\$(744,644)	\$ 149,066	\$ 1,996,234	\$(364,191)	\$ 43,539	\$ 1,219,918	
Net income				9,746		1,023	10,769	
Cash dividends declared:								
Common @ \$0.615 per share				(49,597)			(49,597)	
Noncontrolling interests						(2,264)	(2,264)	
Translation adjustments, net of deferred income taxes of \$(4,618)					7,479	254	7,733	
Cash flow hedging instrument adjustments, net of deferred income taxes of \$(653)					1,941		1,941	

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Contributions from noncontrolling interests	8,602	8,602	
Sale of investment in consolidated subsidiary	(704) (704)
Pension liability adjustments, net of deferred income taxes of \$189	(1,294)	(1,294)
Marketable securities unrealized gain, net of deferred income taxes of \$(2)			