

HARSCO CORP
Form 10-K
February 24, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the fiscal year ended December 31, 2008

OR

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

Commission File Number 1-3970

HARSCO CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation
or organization)

23-1483991
(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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common stock, par value \$1.25 per share
Preferred stock purchase rights

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the Company's voting stock held by non-affiliates of the Company as of June 30, 2008 was \$4,586,440,131.

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 January 31, 2009
Common stock, par value \$1.25 per share	80,325,891

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the 2008 Proxy Statement are incorporated by reference into Part III of this Report.

The Exhibit Index (Item No. 15) located on pages 108 to 113 incorporates several documents by reference as indicated therein.

HARSCO CORPORATION

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PART I

Item 1. Business.

(a) General Development of Business.

Harsco Corporation (“the Company”) is a diversified, multinational provider of market-leading industrial services and engineered products. The Company’s operations fall into two reportable segments: Harsco Infrastructure (formerly Access Services) and Harsco Metals (formerly Mill Services), plus an “all other” category labeled Harsco Minerals & Rail. The Company has locations in 50 countries, including the United States. The Company was incorporated in 1956.

The Company’s executive offices are located at 350 Poplar Church Road, Camp Hill, Pennsylvania 17011. The Company’s main telephone number is (717) 763-7064. The Company’s Internet website address is www.harsco.com. Through this Internet website (in the “Investor Relations” link) the Company makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and all amendments to those reports, as soon as reasonably practicable after those reports are electronically filed or furnished to the Securities and Exchange Commission. Information contained on the Company’s website is not incorporated by reference into this Annual Report on Form 10-K, and should not be considered as part of this Annual Report on Form 10-K.

The Company’s principal lines of business and related principal business drivers are as follows:

Principal Lines of Business	Principal Business Drivers
<ul style="list-style-type: none"> · Highly engineered scaffolding, concrete forming and shoring, and other access-related services, rentals and sales · Outsourced, on-site services to steel mills and other metals producers 	<ul style="list-style-type: none"> · Infrastructure and non-residential construction · Infrastructure plant maintenance requirements
<ul style="list-style-type: none"> · Minerals and recycling technologies 	<ul style="list-style-type: none"> · Global metals production and capacity utilization · Outsourcing of services by metals producers
<ul style="list-style-type: none"> · Railway track maintenance services and equipment 	<ul style="list-style-type: none"> · Demand for industrial co-product materials · Global railway track maintenance-of-way capital spending · Outsourcing of track maintenance and new track construction by railroads
<ul style="list-style-type: none"> · Industrial grating products 	<ul style="list-style-type: none"> · Industrial plant and warehouse construction and expansion
<ul style="list-style-type: none"> · Air-cooled heat exchangers 	<ul style="list-style-type: none"> · Natural gas compression, transmission and demand
<ul style="list-style-type: none"> · Industrial abrasives and roofing granules 	<ul style="list-style-type: none"> · Industrial and infrastructure surface preparation and restoration · Residential roof replacement
<ul style="list-style-type: none"> · Heat transfer products and powder processing equipment 	<ul style="list-style-type: none"> · Commercial and institutional boiler and water heater requirements · Pharmaceutical, food and chemical production

The Company reports segment information using the “management approach” in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information” (“SFAS 131”). This approach is based on the way management organizes and reports the segments within the enterprise for making operating decisions and assessing performance. The Company’s reportable segments are identified based upon differences in products, services and markets served. These segments and the types of products and services offered are more fully described in section (c) below.

In 2008, 2007 and 2006, the United States contributed sales of \$1.3 billion, \$1.2 billion and \$1.0 billion, equal to 32%, 31% and 32% of total sales, respectively. In 2008, 2007 and 2006, the United Kingdom contributed sales of \$0.7 billion in each year, equal to 17%, 20% and 22% of total sales, respectively. One customer, ArcelorMittal, represented approximately 10% of the Company’s sales during 2008, 2007 and 2006. There were no significant inter-segment sales.

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(b) Financial Information about Segments

Financial information concerning industry segments is included in Note 14, Information by Segment and Geographic Area, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

(c) Narrative Description of Business

(1) A narrative description of the businesses by reportable segment is as follows:

Harsco Infrastructure Segment – 39% of consolidated sales for 2008

The Harsco Infrastructure Segment includes the Company's brand names of SGB Group, Hünnebeck Group and Patent Construction Systems. The Harsco Infrastructure Segment is one of the world's most complete knowledge-based global organizations for highly engineered rental scaffolding, shoring, concrete forming and other access-related solutions. The U.K.-based SGB Group operates from a network of international branches throughout Europe, the Middle East and Asia/Pacific; the Germany-based Hünnebeck Group serves Europe, the Middle East and South America, while the U.S.-based Patent Construction Systems serves North America including Mexico, Central America and the Caribbean. Major services include the rental of concrete shoring and forming systems; scaffolding for non-residential and infrastructure projects; as well as a variety of other infrastructure services including project engineering and equipment erection and dismantling and, to a lesser extent, equipment sales.

The Company's infrastructure services are provided through branch locations in over 30 countries plus export sales worldwide. In 2008, this Segment's revenues were generated in the following regions:

Harsco Infrastructure Segment	
2008	
Percentage of	
Region	Revenues
Western Europe	59%
North America	20%
Middle East and Africa	11%
Eastern Europe	8%
Asia/Pacific	1%
Latin America (a)	1%
(a) Including Mexico.	

For 2008, 2007 and 2006, the Harsco Infrastructure Segment's percentage of the Company's consolidated sales was 39%, 39% and 36%, respectively.

Harsco Metals Segment – 40% of consolidated sales for 2008

The Harsco Metals Segment is the world's largest provider of on-site, outsourced services to the global metals industries. Harsco Metals provides its services on a long-term contract basis, supporting each stage of the metal-making process from initial raw material handling to post-production by-product processing and on-site recycling. Working as a specialized, value-added services provider, Harsco Metals rarely takes ownership of its customers' raw materials or finished products. This Segment's multi-year contracts had estimated future revenues of \$4.1 billion at December 31, 2008. This provides the Company with a substantial base of long-term revenues. Approximately 65% of these revenues are expected to be recognized by December 31, 2011. The remaining revenues are expected to be recognized principally between January 1, 2012 and December 31, 2017.

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Harsco Metals operates in over 30 countries. In 2008, this Segment's revenues were generated in the following regions:

Harsco Metals Segment 2008	
Region	Percentage of Revenues
Western Europe North America	52%
Latin America (a)	20%
Asia/Pacific	13%
Middle East and Africa	6%
Eastern Europe (a)	5%
Including Mexico.	4%

For 2008, 2007 and 2006, the Harsco Metals Segment's percentage of the Company's consolidated sales was 40%, 41% and 45%, respectively.

All Other Category - Harsco Minerals & Rail – 21% of consolidated sales for 2008

The All Other Category includes the Excell Minerals, Reed Minerals, Harsco Rail, IKG Industries, Air-X-Changers and Patterson-Kelley Divisions. Approximately 84% of this category's revenues originate in the United States.

Export sales for this Category totaled \$102.7 million, \$57.1 million and \$96.6 million in 2008, 2007 and 2006, respectively. In 2008, 2007 and 2006, export sales for the Harsco Rail Division were \$68.1 million, \$21.8 million and \$51.5 million, respectively, which included sales to Canada, Mexico, Europe, Asia, the Middle East and Africa. A significant backlog exists at December 31, 2008 in the Harsco Rail Division as a result of orders received in 2007 from the Chinese Ministry of Railways.

Excell Minerals is a multinational company that extracts high-value metallic content for production re-use on behalf of leading steelmakers and also specializes in the development of minerals technologies for commercial applications, including agriculture fertilizers.

Reed Minerals' industrial abrasives and roofing granules are produced from power-plant utility coal slag at a number of locations throughout the United States. The Company's BLACK BEAUTY® abrasives are used for industrial surface preparation, such as rust removal and cleaning of bridges, ship hulls and various structures. Roofing granules are sold to residential roofing shingle manufacturers, primarily for the replacement roofing market. This Division is the United States' largest producer of slag abrasives and third largest producer of residential roofing granules.

Harsco Rail is a global provider of equipment and services to maintain, repair and construct railway track. The Company's railway track maintenance services support railroad customers worldwide. The railway track maintenance

equipment product class includes specialized track maintenance equipment used by private and government-owned railroads and urban transit systems worldwide.

IKG Industries manufactures a varied line of industrial grating products at several plants in North America. These products include a full range of bar grating configurations, which are used mainly in industrial flooring, and safety and security applications in the power, paper, chemical, refining and processing industries.

Air-X-Changers is a leading supplier of custom-designed and manufactured air-cooled heat exchangers for the natural gas industry. The Company's heat exchangers are the primary apparatus used to condition natural gas during recovery, compression and transportation from underground reserves through the major pipeline distribution channels.

Patterson-Kelley is a leading manufacturer of heat transfer products such as boilers and water heaters for commercial and institutional applications, and also powder processing equipment such as blenders, dryers and mixers for the chemical, pharmaceutical and food processing industries.

For 2008, 2007 and 2006, the All Other Category's percentage of the Company's consolidated sales was 21%, 20% and 19%, respectively.

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- (1)(i) The products and services of the Company include a number of product groups. These product groups are more fully discussed in Note 14, Information by Segment and Geographic Area, to the Consolidated Financial Statements under Part II, Item 8, “Financial Statements and Supplementary Data.” The product groups that contributed 10% or more as a percentage of consolidated sales in any of the last three fiscal years are set forth in the following table:

Product Group	Percentage of Consolidated Sales		
	2008	2007	2006
Services and equipment for infrastructure construction and maintenance	39%	39%	36%
On-site services to metal producers	40%	41%	45%

- (1)(ii) New products and services are added from time to time; however, in 2008 none required the investment of a material amount of the Company’s assets.
- (1)(iii) The manufacturing requirements of the Company’s operations are such that no unusual sources of supply for raw materials are required. The raw materials used by the Company for its limited product manufacturing include principally steel and, to a lesser extent, aluminum, which are usually readily available. The profitability of the Company’s manufactured products is affected by changing purchase prices of steel and other materials and commodities. If steel or other material costs associated with the Company’s manufactured products increase and the costs cannot be passed on to the Company’s customers, operating income would be adversely impacted. Additionally, decreased availability of steel or other materials could affect the Company’s ability to produce manufactured products in a timely manner. If the Company cannot obtain the necessary raw materials for its manufactured products, then revenues, operating income and cash flows will be adversely affected. Certain services performed by the Excell Minerals Division result in the recovery, processing and sale of specialty steel scrap concentrate and ferro alloys to its customers. The selling price of the by-product material is principally market-based and varies based upon the current market value of its components. Therefore, the revenue amounts recorded from the sale of such by-product material varies based upon the market value of the commodity components being sold. The Company has executed hedging instruments designed to reduce the volatility of the revenue from the sale of the by-products material at varying market prices. However, there can be no guarantee that such hedging strategies will be fully effective in reducing the variability of revenues from period to period.
- (1) (iv) While the Company has a number of trademarks, patents and patent applications, it does not consider that any material part of its business is dependent upon them.
- (1)(v) The Company furnishes products and materials and certain industrial services within the Harsco Infrastructure and the All Other Category that are seasonal in nature. As a result, the Company’s sales and net income for the first quarter ending March 31 are normally lower than the second, third and fourth quarters. Additionally, the Company has historically generated the majority of its cash flows in the second half of the year. This is a direct result of normally higher sales and income during the latter part of the year. The Company’s historical revenue patterns and cash provided by operating activities were as follows:

Historical Revenue from Continuing Operations Patterns

(In millions)	2008	2007	2006	2005	2004
First Quarter Ended March 31	\$ 987.8	\$ 840.0	\$ 682.1	\$ 558.0	\$ 478.7

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Second Quarter Ended June 30	1,099.6	946.1	766.0	606.0	534.6
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