



Harsco Annual Report 2017

Form 10-K (NYSE:HSC)

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**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, 2016

OR

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

Commission File Number 001-03970

HARSCO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

350 Poplar Church Road, Camp Hill, Pennsylvania

(Address of principal executive offices)

23-1483991

(I.R.S. employer identification number)

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	Name of each exchange on which registered
Common stock, par value \$1.25 per share Preferred stock purchase rights	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

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 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 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, 2016 was \$532,362,000

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, 2017
Common stock, par value \$1.25 per share	80,182,217

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the 2017 Proxy Statement are incorporated by reference into Part III of this Report.

HARSCO CORPORATION
FORM 10-K
INDEX

	<u>Page</u>
<u>PART I</u>	
<u>Item 1. Business.</u>	<u>1</u>
<u>Item 1A. Risk Factors.</u>	<u>5</u>
<u>Item 1B. Unresolved Staff Comments.</u>	<u>14</u>
<u>Item 2. Properties.</u>	<u>14</u>
<u>Item 3. Legal Proceedings.</u>	<u>14</u>
<u>Item 4. Mine Safety Disclosures.</u>	<u>14</u>
<u>Supplementary Item. Executive Officers of the Registrant (Pursuant to Instruction 3 to Item 401(b) of Regulation S-K).</u>	<u>15</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u>	<u>16</u>
<u>Item 6. Selected Financial Data.</u>	<u>17</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>18</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk.</u>	<u>39</u>
<u>Item 8. Financial Statements and Supplementary Data.</u>	<u>40</u>
<u>Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	<u>92</u>
<u>Item 9A. Controls and Procedures.</u>	<u>92</u>
<u>Item 9B. Other Information.</u>	<u>92</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance.</u>	<u>93</u>
<u>Item 11. Executive Compensation.</u>	<u>93</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	<u>93</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence.</u>	<u>93</u>
<u>Item 14. Principal Accounting Fees and Services.</u>	<u>93</u>
<u>PART IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules.</u>	<u>94</u>
<u>Item 16. Form 10-K Summary.</u>	<u>99</u>
<u>SIGNATURES</u>	<u>100</u>

PART I

Item 1. Business.

(a) General Development of Business

Harsco Corporation (the "Company") is a diversified, multinational provider of industrial services and engineered products serving global industries that are fundamental to worldwide economic growth and infrastructure development. The Company's operations consist of three reportable segments: Harsco Metals & Minerals, Harsco Industrial and Harsco Rail. The Company has locations in approximately 30 countries, including the U.S. The Company was incorporated in 1956.

The Company's operations previously included the Harsco Infrastructure Segment. In November 2013, the Company consummated the sale of the Company's Harsco Infrastructure Segment into a strategic venture with Clayton, Dubilier & Rice ("CD&R") as part of a transaction that combined the Harsco Infrastructure Segment with Brand Energy & Infrastructure Services, Inc., which CD&R simultaneously acquired. The Company contributed substantially all of the Company's equity interests in, and the net assets of, the Harsco Infrastructure Segment to the strategic venture in exchange for approximately \$300 million in cash, subject to working capital and other adjustments, and an approximate 29% equity interest in the Infrastructure strategic venture. The Company's equity interest in the Infrastructure strategic venture was accounted for under the equity method of accounting as prescribed by generally accepted accounting principles in the U.S.

The Company's executive offices are located at 350 Poplar Church Road, Camp Hill, Pennsylvania 17011 and the Company's main telephone number is (717) 763-7064. The public may read and copy any material the Company files with the Securities and Exchange Commission ("SEC") at their Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports filed with or furnished to the SEC under Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on the SEC's Internet website at www.sec.gov and on the Company's Internet website at www.harsco.com as soon as reasonably practicable after such reports are electronically filed with the SEC. The information posted on the Company's website is not incorporated into the Company's SEC filings.

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"> † Global expertise in providing on-site services for material logistics, product quality improvement and resource recovery from iron, steel and metals manufacturing; as well as value added environmental solutions for industrial co-products 	<ul style="list-style-type: none"> † Global metals production and capacity utilization † Outsourcing of services by metals producers † Demand for high-value specialty steel and ferro alloys † Demand for environmental solutions for metals and minerals waste streams † Demand for industrial and infrastructure surface preparation and restoration † Demand for residential roofing shingles † Demand for road making materials
<ul style="list-style-type: none"> † Air-cooled heat exchangers 	<ul style="list-style-type: none"> † Demand in the natural gas, natural gas processing and petrochemical markets
<ul style="list-style-type: none"> † Industrial grating and high-security fencing products 	<ul style="list-style-type: none"> † Industrial plant and warehouse construction and expansion † Off-shore drilling and new rig construction † High-security fencing requirements to protect major facilities and infrastructure
<ul style="list-style-type: none"> † Heat transfer products 	<ul style="list-style-type: none"> † Demand for commercial and institutional boilers and water heaters
<ul style="list-style-type: none"> † Railway track maintenance services and equipment 	<ul style="list-style-type: none"> † Global railway track maintenance-of-way capital spending † Outsourcing of track maintenance and new track construction by railroads

The Company reports segment information using the "management approach," 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 2016, 2015 and 2014, sales in the U.S. contributed total revenues of \$0.6 billion, \$0.8 billion and \$0.9 billion, equal to approximately 42%, 44% and 43% of total revenues, respectively. The Company's sales in euro-currency countries contributed total revenues of \$0.3 billion, \$0.3 billion and \$0.4 billion in 2016, 2015 and 2014, equal to approximately 18%, 16% and 17% of total revenues, respectively. Sales in the U.K. contributed total revenues of \$0.2 billion, \$0.2 billion and \$0.3 billion in 2016, 2015 and 2014, equal to approximately 11%, 13% and 12% of total revenues, respectively. There were no significant inter-segment revenues.

(b) Financial Information about Segments

Financial information concerning segments is included in Note 16, Information by Segment and Geographic Area, in Part II, Item 8, "Financial Statements and Supplementary Data," which information is incorporated herein by reference.

(c) Narrative Description of Business

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

Harsco Metals & Minerals Segment—67% of consolidated revenues for 2016

The Harsco Metals & Minerals Segment is one of the world's largest providers of on-site services for material logistics, product quality improvement and resource recovery from iron, steel and metals manufacturing.

The Minerals business extracts high-value metallic content from stainless steel by-products and also specializes in the development of minerals technologies for commercial applications, including agriculture fertilizers. The Minerals business also produces industrial abrasives and roofing granules from power-plant utility coal slag at a number of locations throughout the U.S. Harsco Minerals' 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 in the U.S., primarily for the replacement roofing market. This business is one of the largest U.S. producers of slag abrasives and residential roofing granules.

As part of the Harsco Metals & Minerals Segment's initiatives to develop new products and services, in particular environmental solutions, the Segment is involved with several initiatives and technology alliances focused on developing greater environmental sustainability through the recovery of resources from production by-products and waste streams.

The Harsco Metals & Minerals Segment operates in approximately 30 countries. In 2016 and 2015, this Segment's revenues were generated in the following regions:

Region	Percentage of Revenues	
	2016	2015
Western Europe	40%	41%
North America	26%	24%
Latin America (a)	14%	14%
Asia-Pacific	12%	12%
Middle East and Africa	5%	5%
Eastern Europe	3%	4%

(a) Including Mexico.

For 2016, 2015 and 2014, the Harsco Metals & Minerals Segment's percentage of the Company's consolidated revenues were 67%, 64% and 67%, respectively.

The Company has announced its intention to pursue strategic options for the separation of the Harsco Metals & Minerals Segment from the rest of the Company. There is no specific timetable related to this initiative and there can be no assurance that a sale, spin-off or any other transaction will take place.

Harsco Industrial Segment—17% of consolidated revenues for 2016

The Harsco Industrial Segment includes the Harsco Industrial Air-X-Changers, Harsco Industrial IKG and Harsco Industrial Patterson-Kelley businesses. Approximately 87% of this Segment's revenues originate in North America.

Harsco Industrial Air-X-Changers is a leading supplier of custom-engineered and manufactured air-cooled heat exchangers for the natural gas, natural gas processing and petrochemical industries in the U.S. Harsco Industrial Air-X-Changers' 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. 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.

Harsco Industrial IKG manufactures a varied line of industrial grating and high-security fencing products at several plants in the U.S. and international plants located in Mexico and China. These products include a full range of metal bar grating configurations, which are used mainly in industrial flooring, as well as safety and security applications in the energy, paper, chemical, refining and processing industries. Harsco Industrial IKG also produces GrateGuard™, a fencing solution for first-line physical security.

Harsco Industrial Patterson-Kelley is a leading manufacturer of energy-efficient heat transfer products such as boilers and water heaters for commercial and institutional applications.

For 2016, 2015 and 2014, this Segment's percentage of the Company's consolidated revenues were 17%, 21% and 20%, respectively.

Harsco Rail Segment—16% of consolidated revenues for 2016

The Harsco Rail Segment is a global provider of equipment, after-market parts and services for the maintenance, repair and construction of railway track. The Segment's equipment and services support private and government-owned railroads and urban transit systems worldwide. In March 2015, the Company acquired Protran Technology ("Protran"), a U.S. designer and producer of safety systems for transportation and industrial applications; and in April 2015, the Company acquired JK Rail Products, LLC ("JK Rail"), a provider of after-market parts for railroad track maintenance.

The Harsco Rail Segment's products are produced in three countries and products and services are provided worldwide. In 2016, 2015 and 2014, export product sales from the U.S. for the Harsco Rail Segment were \$67.9 million, \$67.1 million and \$104.9 million, respectively.

For 2016, 2015 and 2014, the Harsco Rail Segment's percentage of the Company's consolidated revenues were 16%, 15% and 13%, respectively.

(1)(i) The products and services of the Company are generated through a number of product groups. These product groups are more fully discussed in Note 16, Information by Segment and Geographic Area, in Part II, Item 8, "Financial Statements and Supplementary Data." The product groups that contributed 10% or more as a percentage of consolidated revenues in any of the last three fiscal years are set forth in the following table:

Product Group	Percentage of Consolidated Revenues		
	2016	2015	2014
Outsourced, on-site services of material logistics, product quality improvement and resource recovery for iron, steel and metals manufacturing; as well as value added environmental solutions for industrial co-products	67%	64%	67%
Railway track maintenance services and equipment	16%	15%	13%
Air-cooled heat exchangers	6%	11%	11%

(1)(ii) New products and services are added from time to time; however, in 2016, 2015 and 2014 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 product manufacturing principally include 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.

(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's Harsco Metals & Minerals Segment provides services which are usually subject to volume reductions at certain points of the year and the Company furnishes products within the Harsco Industrial Segment that are seasonal in nature. As a result, the Company's revenues and results of operations for the first quarter ending March 31 and the fourth quarter ending December 31 may be lower than the second and third quarters. Additionally, the Company has historically generated the majority of its cash flows in the second half of the year. This is a result of normally higher income during the latter part of the year.

(1)(vi) The practices of the Company relating to working capital are similar to those of other industrial service providers or manufacturers servicing both domestic and international industrial customers and commercial markets. These practices include the following:

- Standard accounts receivable payment terms of 30 to 60 days, with progress or advance payments required for certain long-lead-time or large orders. Payment terms are slightly longer in certain international markets.
- Standard accounts payable payment terms of 30 to 90 days.
- Inventories are maintained in sufficient quantities to meet forecasted demand. Due to the time required to manufacture certain railway track maintenance equipment to customer specifications, inventory levels of this business tend to increase for an extended period of time during the production phase and decline when the equipment is sold.

(1)(vii) In 2016, the Harsco Metals & Minerals Segment had one customer, and in 2015 and 2014 had two customers that each provided in excess of 10% of this Segment's revenues under multiple long-term contracts at several mill sites. The loss of any one of the contracts would not have a material adverse effect upon the Company's financial position or cash flows; however, it could have a significant effect on quarterly or annual results of operations. Additionally, a decline in economic conditions may further impact the ability of the Company's customers to meet their obligations to the Company on a timely basis and could result in bankruptcy or receivership filings by any of such customers. If customers are unable to meet their obligations on a timely basis, or if the Company is unable to collect amounts due from customers for any reason, it could adversely impact the realizability of receivables, the valuation of inventories and the valuation of long-lived assets across the Company's businesses. As part of its credit risk management practices, the Company closely monitors the credit standing and accounts receivable position of its customer base.

The Harsco Industrial Segment had no customers in 2016, two customers in 2015 and one customer 2014 that provided in excess of 10% of the Segment's revenues. The loss of any of these customers would not have a material adverse impact on the Company's financial positions or cash flows; however, it could have a material effect on quarterly or annual results of operations.

The Harsco Rail Segment had one customer in 2016, two customers in 2015 and one customer in 2014 that provided in excess of 10% of the Segment's revenues. The loss of any of these customers would not have a material adverse impact on the Company's financial positions or cash flows; however, it could have a material effect on quarterly or annual results of operations.

(1)(viii) At December 31, 2016, the Company's metals services contracts had estimated future revenues of \$2.7 billion at expected production levels, compared with \$3.2 billion at December 31, 2015. This provides the Company with a substantial base of long-term revenues. The decrease is primarily due to the timing of contract expiration and renewals; exited contracts associated with strategic actions from the Harsco Metals & Minerals Improvement Plan ("Project Orion") related to the focus on underperforming contracts; and the impact of foreign currency translation. Approximately 24% of these revenues are expected to be recognized by December 31, 2017; approximately 43% of these revenues are expected to be recognized between January 1, 2018 and December 31, 2020; approximately 14% of these revenues are expected to be recognized between January 1, 2021 and December 31, 2023; and the remaining revenues are expected to be recognized thereafter. There are no significant metals services contracts for which the estimated costs to complete the contract currently exceed the estimated revenue to be realized included in the below estimated future revenues, though certain contracts may have lower near-term operating margins due to continued reduced steel production and weaker commodity prices.

At December 31, 2016, the Company had an estimated order backlog of \$54.4 million in its Harsco Industrial Segment, compared with \$72.9 million at December 31, 2015. This decrease is primarily due to continued low oil prices impacting capital expenditures and overall spending by customers in the natural gas, natural gas processing and petrochemical industries. In addition, at December 31, 2016, the Harsco Rail Segment had an estimated order backlog of \$273.0 million, compared with \$292.1 million at December 31, 2015. This decrease is primarily due to shipments which were not replaced due to decreased demand, primarily in the U.S., during 2016. At December 31, 2016, \$140.6 million or 43% of the Company's manufactured products order backlog is not expected to be filled in 2017. The remainder of this backlog is expected to be filled in 2018 and 2019. This is exclusive of long-term metals industry services contracts, roofing granules and industrial abrasives products, and minerals and metal recovery technologies services.

(1)(ix) At December 31, 2016, the Company had no material contracts that were subject to renegotiation of profits or termination at the election of the U.S. Government.

(1)(x) The Company's competitive environment is complex because of the wide diversity of services and products provided and the global breadth and depth of markets served. No single service provider or manufacturer competes with the Company with respect to all services provided or products manufactured and sold. In general, on a global basis, the Company's segments are among the market leaders in their respective sectors and compete with a range of global, regional and local businesses of varying size and scope.

Harsco Metals & Minerals Segment—This Segment provides outsourced on-site services to the global metals industries in approximately 30 countries, with the largest operations focused in the U.S., the U.K., France and Brazil. This Segment is one of the world's largest providers of these services. This Segment's key competitive factors are innovative resource recovery solutions, significant industry experience, technology, safety performance, service and value. This Segment competes principally with a number of privately-held businesses for services outsourced by customers. Additionally, due to the nature of this Segment's services, it encounters a certain degree of "competition" from customers' desire to perform similar services themselves instead of using an outsourced solution.

Harsco Industrial Segment—This Segment includes manufacturing businesses located principally in the U.S. with an increasing focus on international growth. Key competitive factors include quality, value, technology and energy-efficiency. Primary competitors are U.S.-based manufacturers of similar products. In January 2014, the Company acquired Hammco, a provider of process coolers for the natural gas, natural gas processing and petrochemical industries.

Harsco Rail Segment—This Segment manufactures and sells highly-engineered railway track maintenance equipment produced primarily in the U.S. for customers throughout the world. Additionally, this Segment provides railway track maintenance services principally in the U.S. and the U.K. This Segment's key competitive factors are quality, technology, customer service and value. Primary competitors for both products and services are privately-held global businesses as well as certain regional competitors. In March 2015, the Company acquired Protran, a U.S. designer and producer of safety systems for transportation and industrial applications; and in April 2015, the Company acquired JK Rail, a provider of after-market parts for railroad track maintenance.

(1)(xi) The Company's expense for research and development activities was \$4.3 million, \$4.5 million and \$5.5 million in 2016, 2015 and 2014, respectively. This excludes technology development and engineering costs classified in cost of services and products sold or selling, general and administrative expense. For additional information regarding research and development activities, see Research and Development, in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(1)(xii) The Company has become subject to, as have others, stringent air and water quality control legislation. In general, the Company has not experienced substantial difficulty complying with these environmental regulations, and does not anticipate making any material capital expenditures for environmental control facilities. While the Company expects that environmental regulations may expand, and that its expenditures for air and water quality control will continue, it cannot predict the effect on its business of such expanded regulations. For additional information regarding environmental matters see Note 12, Commitments and Contingencies, in Part II, Item 8, "Financial Statements and Supplementary Data."

(1)(xiii) At December 31, 2016, the Company had approximately 9,400 employees.

(d) Financial Information about Geographic Areas

Financial information concerning international and domestic operations is included in Note 16, Information by Segment and Geographic Area, in Part II, Item 8, "Financial Statements and Supplementary Data," which information is incorporated herein by reference. Export sales from the U.S. totaled \$86.5 million, \$80.8 million and \$134.0 million in 2016, 2015 and 2014, respectively.

(e) Available Information

Information is provided in Part I, Item 1 (a), "General Development of Business."

Item 1A. Risk Factors.

Set forth below are risks and uncertainties that could materially and adversely affect Harsco Corporation's (the "Company's") results of operations, financial condition, liquidity and cash flows. The risks set forth below are not the only risks faced by the Company. The Company's business operations could also be affected by other factors not presently known to the Company or factors that the Company currently does not consider to be material.

Negative economic conditions may adversely impact demand for the Company's products and services, as well as the ability of the Company's customers to meet their obligations to the Company on a timely basis.

Negative economic conditions, including the tightening of credit in financial markets, can lead businesses to postpone spending, which may impact the Company's customers, causing them to cancel, decrease or delay their existing and future orders with the Company. In addition, economic conditions may further impact the ability of the Company's customers by either causing them to close locations serviced by the Harsco Metals & Minerals Segment, or cause their financial condition to deteriorate to a point where they are unable to meet their obligations to the Company on a timely basis. One or more of these events could adversely impact the Company's operating results and realizability of receivables.

Cyclical industry and economic conditions may adversely affect the Company's businesses.

The Company's businesses are subject to general economic slowdowns and cyclical conditions in each of the industries served. In particular:

- The Harsco Metals & Minerals Segment may be adversely impacted by continued slowdowns in steel mill production, excess production capacity, bankruptcy or receivership of steel producers and changes in outsourcing practices in the steel industry;
- The resource recovery technologies business of the Harsco Metals & Minerals Segment can also be adversely impacted by continued slowdowns in customer production or a reduction in the selling prices of its materials, which are market-based and vary based upon the current fair value of the components being sold. Therefore, the revenue generated from the sale of such recycled materials varies based upon the fair value of the commodity components being sold;
- The industrial abrasives and roofing granules business of the Harsco Metals & Minerals Segment may be adversely impacted by reduced home resales or economic conditions that slow the rate of residential roof replacement, or by slowdowns in the industrial and infrastructure refurbishment industries;
- Decreasing oil prices may adversely impact purchasing by energy sector customers in the Harsco Industrial Segment;
- The industrial grating products business of the Harsco Industrial Segment may be adversely impacted by slowdowns in non-residential construction and industrial production;
- The Harsco Rail Segment may be adversely impacted by developments in the railroad industry that lead to lower capital spending or reduced track maintenance spending; and
- Capital constraints and increased borrowing costs may also adversely impact the financial position and operations of the Company's customers across all business segments.

Furthermore, realization of deferred tax assets is ultimately dependent on generating sufficient income in future periods to ensure recovery of those assets. The cyclicity of the Company's end markets and adverse economic conditions may negatively impact the future income levels that are necessary for the utilization of deferred tax assets.

The seasonality of the Company's business may cause its quarterly results to fluctuate.

The Company has historically generated the majority of its cash flows provided by operations in the second half of the year. This is a result of normally higher income during the second half of the year, as the Company's business tends to follow seasonal patterns. If the Company is unable to successfully manage the cash flow and other effects of seasonality on the business, its results of operations may suffer.

Increased customer concentration and related credit and commercial risks may adversely impact the Company's results of operations, financial condition and cash flows.

For the year ended December 31, 2016, the Company's top five customers in the Harsco Metals & Minerals Segment accounted for approximately 34% of revenues in that segment and 23% of the Company's total revenues.

Certain of the several large customers in the Harsco Metals & Minerals Segment have significant accounts receivable balances. If a large customer were to experience financial difficulty, or file for bankruptcy or receivership protection it could adversely impact the Company's results of operations, cash flows and asset valuations.

Disputes with our largest customers, or customers with long-term contracts, could adversely affect the Company's financial condition.

The Company routinely enters into multiple contracts with its customers, many of which can be long-term contracts. For example, the Company is currently party to multiple contracts in numerous countries with its largest customer, ArcelorMittal, which accounted for almost 10% of its total revenues for the year ended December 31, 2016. These contracts cover a variety of services and vary in contract length. From time to time, the Company may be negotiating the terms of current and potential future services to be rendered due to the scope and complexity of this relationship. Disagreements between the parties can arise as a result of the scope and nature of the relationship and these ongoing negotiations.

In addition, under long-term contracts, the Company may incur capital expenditures or other costs at the beginning of the contract that it expects to recoup through the life of the contract. Some of these contracts provide for advance payments to assist the Company in covering these costs and expenses. A dispute with a customer during the life of a long-term contract could impact the ability of the Company to receive these advance payments or otherwise recoup incurred costs and expenses.

The Company's global presence subjects it to a variety of risks arising from doing business internationally.

The Company operates in approximately 30 countries, generating 58% of its revenues outside of the U.S. (based on location of the facility generating the revenue) for the year ended December 31, 2016. In addition, as of December 31, 2016, approximately 75% of the Company's property, plant and equipment are located outside of the U.S. The Company's global

footprint exposes it to a variety of risks that may adversely affect the Company's results of operations, financial condition, liquidity and cash flows. These include, but may not be limited to, the following:

- periodic economic downturns in the countries in which the Company does business;
- imposition of or increases in currency exchange controls and hard currency shortages;
- customs matters and changes in trade policy or tariff regulations;
- changes in regulatory requirements in the countries in which the Company does business;
- changes in tax regulations, higher tax rates in certain jurisdictions and potentially adverse tax consequences including restrictions on repatriating earnings, adverse tax withholding requirements and "double taxation;"
- longer payment cycles and difficulty in collecting accounts receivable;
- complexities in complying with a variety of U.S. and foreign government laws, controls and regulations;
- political, economic and social instability, civil and political unrest, terrorist actions and armed hostilities in the regions or countries in which the Company does business;
- inflation rates in the countries in which the Company does business;
- complying with complex labor laws in foreign jurisdictions;
- laws in various international jurisdictions that limit the right and ability of subsidiaries to pay dividends and remit earnings to affiliated companies unless specified conditions are met;
- sovereign risk related to international governments, including, but may not be limited to, governments stopping interest payments or repudiating their debt, nationalizing private businesses or altering foreign exchange regulations; and
- uncertainties arising from local business practices, cultural considerations and international political and trade tensions.

The Company has operations in several countries in the Middle East, including Bahrain, Egypt, Israel, Saudi Arabia and Oman, as well as India, some of which have experienced armed hostilities and civil unrest. Additionally, these countries are geographically close to other countries that may have a continued high risk of armed hostilities or civil unrest.

If the Company is unable to successfully manage the risks associated with its global business, the Company's results of operations, financial condition, liquidity and cash flows may be negatively impacted.

The Board of Directors (the "Board") has determined to explore strategic options for the separation of the Company's Metals & Minerals Segment; however there can be no assurance that the Company will be successful in entering into or consummating a transaction or that any such transaction will yield additional value for stockholders.

During 2015, the Company announced that the Board had authorized a process to explore a range of strategic options for the separation of the Company's Harsco Metals & Minerals Segment from the Harsco Industrial and Rail Segments. There can be no assurances that any such process will result in a sale, spin-off or any other transaction being entered into or consummated. The process may be time-consuming, distracting to management and disruptive to the Company's business operations, and if the Company is unable to effectively manage the process, the business, financial condition, and results of operations could be adversely affected. In addition, identifying and evaluating potential strategic options may result in the incurrence of additional expenses.

Any strategic decision will involve risks and uncertainties, and the Company cannot guarantee that any potential transaction or other strategic option, if identified, evaluated and consummated, will provide greater value to the Company's stockholders than that reflected in the current stock price. Any potential transaction would be dependent upon a number of factors that may be beyond the Company's control, including, among other factors, market conditions, industry trends and the interest of third parties in the Harsco Metals & Minerals Segment.

The Company has not set a specific timetable for completion of this process and does not intend to discuss or disclose developments with respect to the process unless and until such time as the Board has approved a definitive course of action or otherwise deems disclosure to be required or appropriate. As a consequence, perceived uncertainties related to the future of the Company's Harsco Metals & Minerals Segment may result in the loss of potential business opportunities and may make it more difficult for the Company to attract and retain qualified personnel and business partners.

Due to the international nature of the Company's business, the Company could be adversely affected by violations of certain laws.

The U.S. Foreign Corrupt Practices Act ("FCPA") and similar anti-bribery laws in non-U.S. jurisdictions generally prohibit companies and their intermediaries from making improper payments to officials for the purpose of obtaining or retaining business. The FCPA also imposes accounting standards and requirements on publicly traded U.S. corporations and their foreign affiliates, which, among other things, are intended to prevent the diversion of corporate funds to the payment of bribes and other improper payments, and to prevent the establishment of "off the books" slush funds from which improper payments