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HARSCO CORP  
Form 10-Q  
May 08, 2007

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

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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, 2007

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 1-3970

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

Delaware

23-1483991

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(State of incorporation)

(I.R.S. Employer Identification No.)

350 Poplar Church Road, Camp Hill, Pennsylvania 17011

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(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number (717) 763-7064

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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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, 2007
Common stock, par value \$1.25 per share	84,155,128

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

#### CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

#### REVENUES FROM CONTINUING OPERATIONS:

Service revenues	\$ 7
Product revenues	1

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TOTAL REVENUES	8
----------------	---

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#### COSTS AND EXPENSES FROM CONTINUING OPERATIONS:

Cost of services sold	5
Cost of products sold	
Selling, general and administrative expenses	1
Research and development expenses	
Other (income) expenses	

---

TOTAL COSTS AND EXPENSES	7
--------------------------	---

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#### OPERATING INCOME FROM CONTINUING OPERATIONS

Equity in income of unconsolidated entities, net	
Interest income	
Interest expense	(

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#### INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST

Income tax expense	(
--------------------	---

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#### INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST

Minority interest in net income	
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#### INCOME FROM CONTINUING OPERATIONS

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DISCONTINUED OPERATIONS:

Income from operations of discontinued business  
 Disposal costs of discontinued business  
 Income tax expense

INCOME FROM DISCONTINUED OPERATIONS

NET INCOME

\$

Average shares of common stock outstanding

Basic earnings per common share:

Continuing operations

\$

Discontinued operations

BASIC EARNINGS PER COMMON SHARE

\$

Diluted average shares of common stock outstanding

Diluted earnings per common share:

Continuing operations

\$

Discontinued operations

DILUTED EARNINGS PER COMMON SHARE

\$

CASH DIVIDENDS DECLARED PER COMMON SHARE

\$

- (a) Reclassified for comparative purposes. See Note B, "Reclassifications," for additional information on these changes.  
 (b) Does not total due to rounding.

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
 PART I - FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

(IN THOUSANDS)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents  
 Accounts receivable, net  
 Inventories  
 Other current assets

\$

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Assets held-for-sale	
-----	
TOTAL CURRENT ASSETS	1,
=====	
Property, plant and equipment, net	1,
Goodwill, net	
Intangible assets, net	
Other assets	
-----	
TOTAL ASSETS	\$ 3,
=====	
LIABILITIES	
CURRENT LIABILITIES:	
Short-term borrowings	\$
Current maturities of long-term debt	
Accounts payable	
Accrued compensation	
Income taxes payable	
Dividends payable	
Insurance liabilities	
Other current liabilities	
Liabilities associated with assets held-for-sale	
-----	
TOTAL CURRENT LIABILITIES	1,
=====	
Long-term debt	
Deferred income taxes	
Insurance liabilities	
Retirement plan liabilities	
Other liabilities	
-----	
TOTAL LIABILITIES	2,
=====	
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Common stock	
Additional paid-in capital	
Accumulated other comprehensive loss	(
Retained earnings	1,
Treasury stock	(
-----	
TOTAL STOCKHOLDERS' EQUITY	1,
=====	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,
=====	

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

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(IN THOUSANDS)

-----  
CASH FLOWS FROM OPERATING ACTIVITIES:

Net income  
Adjustments to reconcile net income to net  
cash provided (used) by operating activities:  
    Depreciation  
    Amortization  
    Equity in income of unconsolidated entities, net  
    Other, net  
    Changes in assets and liabilities, net of acquisitions  
    and dispositions of businesses:  
        Accounts receivable  
        Inventories  
        Accounts payable  
        Accrued interest payable  
        Accrued compensation  
        Other assets and liabilities

-----  
NET CASH PROVIDED BY OPERATING ACTIVITIES  
=====

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property, plant and equipment  
Net source (use) of cash associated with the purchases of businesses  
Proceeds from sale of assets  
Other investing activities

-----  
NET CASH USED BY INVESTING ACTIVITIES  
=====

CASH FLOWS FROM FINANCING ACTIVITIES:

Short-term borrowings, net  
Current maturities and long-term debt:  
    Additions  
    Reductions  
Cash dividends paid on common stock  
Common stock issued-options  
Other financing activities

-----  
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES  
=====

Effect of exchange rate changes on cash  
-----

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents at beginning of period  
=====

CASH AND CASH EQUIVALENTS AT END OF PERIOD  
=====

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(IN THOUSANDS)

-----  
Net income  
-----

Other comprehensive income (loss):

Foreign currency translation adjustments

Net losses on cash flow hedging instruments, net of deferred income taxes of \$0 and \$5 in 2007 and 2006, respectively

Pension liability adjustments, net of deferred income taxes of \$(4,390) and \$668 in 2007 and 2006, respectively

Marketable securities, unrealized gain, net of deferred income taxes of \$0 and \$1 in 2007 and 2006, respectively

Reclassification adjustment for (gain) loss on cash flow hedging instruments included in net income, net of deferred income taxes of \$2 and \$(1) in 2007 and 2006, respectively  
-----

Other comprehensive income  
-----

TOTAL COMPREHENSIVE INCOME  
=====

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
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A. OPINION OF MANAGEMENT

Financial information furnished herein, which is unaudited, in the opinion of

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management reflects all adjustments (all of which are of a normal recurring nature) that are necessary to present a fair statement of the interim period. The year-end condensed balance sheet information contained in this Form 10-Q was derived from 2006 audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America for a year-end report. The unaudited interim information contained herein should also be read in conjunction with the Company's 2006 Form 10-K filing.

### B. RECLASSIFICATIONS

Certain reclassifications have been made to prior years' amounts to conform with current year classifications. These reclassifications relate principally to the Gas Technologies Segment that is currently classified as Discontinued Operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") as discussed in Note G, "Acquisitions and Dispositions." Additionally, all historical share and per share data have been restated to reflect the two-for-one stock split that was effective at the close of business on March 26, 2007. As a result of these reclassifications, certain 2006 amounts presented for comparative purposes will not individually agree with previously filed Forms 10-K or 10-Q.

### C. REVIEW OF OPERATIONS BY SEGMENT

	THREE MONTHS ENDED MARCH 31, 2007	
(IN THOUSANDS)	SALES	OPERATING INCOME (LOSS)
Access Services Segment	\$ 316,209	\$ 35,041
Mill Services Segment	360,771	32,308
Segment Totals	676,980	67,349
Minerals & Rail Technologies, Services and Products ("all other") Category (a)	163,046	19,379
General Corporate	--	(154)
Consolidated Totals	\$ 840,026	\$ 86,574

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#### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

RECONCILIATION OF SEGMENT OPERATING INCOME TO CONSOLIDATED INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST

(IN THOUSANDS)

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Segment Operating Income

Minerals & Rail Technologies, Services and Products  
("all other") Category (a)

General Corporate

-----  
Operating income from continuing operations

Equity in income of unconsolidated entities, net

Interest income

Interest expense

-----  
Income from continuing operations before income taxes and minority interest  
=====

(a) In March 2007, after the completion of the Excell Minerals acquisition, the "all other" Category was renamed Minerals & Rail Technologies, Services and Products, to reflect the Company's strengthening strategic presence in the minerals technologies and railway services sectors.

### D. ACCOUNTS RECEIVABLE AND INVENTORIES

At March 31, 2007 and December 31, 2006, accounts receivable of \$757.5 million and \$753.2 million, respectively, were net of an allowance for doubtful accounts of \$26.9 million and \$25.4 million, respectively. Gross accounts receivable included trade accounts receivable of \$746.6 million and \$737.1 million at March 31, 2007 and December 31, 2006, respectively. Other receivables included insurance claim receivables of \$18.4 million and \$18.9 million at March 31, 2007 and December 31, 2006, respectively. The provision for doubtful accounts was \$2.7 million and \$2.3 million for the three months ended March 31, 2007 and 2006, respectively.

Inventories consist of the following:

(IN THOUSANDS)	INVENTORIES	
	MARCH 31 2007	DECEMBER 31 2006
Finished goods	\$ 101,558	\$ 117,072
Work-in-process	12,429	31,489
Raw materials and purchased parts	63,397	96,750
Stores and supplies	42,243	39,918
Total Inventories	\$ 219,627	\$ 285,229

Inventories decreased \$65.6 million from December 31, 2006 due to the following factors:

- o Decreased finished goods, work-in-process and raw materials inventories due to the reclassification of the Gas Technologies Segment to Discontinued Operations as of March 31, 2007. All related assets and liabilities have been reclassified to held-for-sale as of March 31, 2007.



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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

This was partially offset by:

- o Increased finished goods and raw materials inventories in the Minerals & Rail Technologies, Services and Products Category due to the Excell Minerals acquisition, higher material costs and increased inventories to meet expected customer demand.
- o Increased finished goods in the Access Services Segment in order to meet expected customer demand.

#### E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

(IN THOUSANDS)	MARCH 31 2007	DECEMBER 31 2006
Land and improvements	\$ 43,569	\$ 41,255
Buildings and improvements	156,969	192,575
Machinery and equipment	2,634,385	2,699,131
Uncompleted construction	65,436	52,640
Gross property, plant and equipment	2,900,359	2,985,601
Less accumulated depreciation	(1,579,376)	(1,663,134)
Net property, plant and equipment	\$ 1,320,983	\$ 1,322,467

#### F. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table reflects the changes in carrying amounts of goodwill by segment for the three months ended March 31, 2007:

##### GOODWILL BY SEGMENT

(IN THOUSANDS)	ACCESS SERVICES SEGMENT	MILL SERVICES SEGMENT	MINE & R TECHNO SERVIC PROD ("ALL CATE
Balance as of December 31, 2006, net of accumulated amortization	\$241,937	\$325,492	\$ 8
Goodwill acquired during the quarter	--	--	112
Changes to Goodwill (a)	1,884	--	
Foreign currency translation	1,116	626	
Goodwill transferred to assets held-for-sale	--	--	
<b>BALANCE AS OF MARCH 31, 2007, NET OF ACCUMULATED AMORTIZATION</b>	<b>\$244,937</b>	<b>\$326,118</b>	<b>\$121</b>

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(a) Relate principally to opening balance sheet adjustments.

Goodwill is net of accumulated amortization of \$100.8 million and \$109.3 million at March 31, 2007 and December 31, 2006, respectively.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

The following table reflects intangible assets by major category:

INTANGIBLE ASSETS

(IN THOUSANDS)	MARCH 31, 2007		DECEMBER 31, 2006	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Customer Relationships	\$ 142,265	\$ 10,407	\$ 87,426	\$ 7,084
Non-compete agreements	3,338	2,750	5,648	4,708
Patents	4,711	3,972	4,700	3,940
Other	56,601	4,855	9,800	3,678
Total	\$ 206,915	\$ 21,984	\$ 107,574	\$ 19,410

Intangible assets are included in the Intangible Assets, Net and Other Current Assets line items in the Consolidated Balance Sheets.

During the first three months of 2007, the Company acquired the following intangible assets (by major class) which are subject to amortization. These intangible assets relate principally to the Excell Minerals acquisition more fully discussed in Note G, "Acquisitions and Dispositions."

ACQUIRED INTANGIBLE ASSETS

(IN THOUSANDS)	GROSS CARRYING AMOUNT	RESIDUAL VALUE	WEIGHTED-AVERAGE AMORTIZATION PERIOD
Customer relationships	\$ 56,740	None	5 years
Other (a)	46,760	None	9 years
Total	\$ 103,500		

(a) Principally technical know-how and contractual revenue

There were no research and development assets acquired and written off in the first three months of 2007 or 2006.

Amortization expense for intangible assets was \$5.0 million and \$1.6 million for the three months ended March 31, 2007 and 2006, respectively. The following table shows the estimated amortization expense for the next five fiscal years based on current intangible assets:

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(IN THOUSANDS)	2007	2008	2009	2010	2011
Estimated amortization expense (a)	\$24,500	\$24,000	\$22,900	\$22,500	\$21,300

(a) These estimated amortization expense amounts do not reflect the potential effect of future foreign currency exchange rate fluctuations.

### G. ACQUISITIONS AND DISPOSITIONS

#### ACQUISITIONS

In April 2007, the Company acquired Performix Technologies, Ltd. ("Performix"), an Ohio-based company that is one of the United States' leading producers of specialty additives used by steelmakers in the ladle refining of molten steel. Performix operates from two plants in the U.S. and serves most of the major steelmakers in the upper Midwest and Canada. Performix recorded 2006 sales of approximately \$29 million and employs approximately 60 people. Performix will be included in the Mill Services Segment.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES

#### PART I - FINANCIAL INFORMATION

In February 2007, the Company acquired Excell Materials, Inc. ("Excell"), a Pittsburgh-based multinational company, for approximately \$210 million, which included the assumption of debt but excluded direct acquisition costs. Excell specializes in the reclamation and recycling of high-value content from steelmaking slag. Excell is also involved in the development of mineral-based products for commercial applications. Excell recorded 2006 sales in excess of \$100 million and maintains operations at nine locations in the United States, Canada, Brazil, and South Africa. Goodwill recognized in this transaction (based on foreign exchange rates at the transaction date) was \$113 million, none of which is expected to be deductible for U.S. income tax purposes. Because this acquisition occurred in the first quarter of 2007, the purchase price allocation and goodwill balance have not been finalized as of March 31, 2007. Excell has been included in the Minerals & Rail Technologies, Services and Products ("all other") Category and has been renamed Excell Minerals to emphasize its long-term growth strategy.

In November 2006, the Company acquired the Santiago, Chile-based company Moldajes y Andamios TH S.A. ("MyATH"), a supplier of rental formwork, scaffolding and related services to the construction, infrastructure and building maintenance sectors. MyATH employs approximately 100 people and its annual revenues are approximately \$8 million. MyATH has been included in the Hunnebeck Division of the Access Services Segment.

In November 2006, the Company acquired the conveyor services and trading arm of Technic Gum, a Belgium-based provider of conveyor belt maintenance services for the steel and cement-producing industries. Technic Gum Services recorded revenues of approximately \$8 million in 2005 and employs approximately 50 people. Technic Gum Services has been included in the Mill Services Segment.

In July 2006, the Company acquired the assets of U.K.-based Cape PLC's Cleton industrial maintenance services ("Cleton") subsidiaries in Holland, Belgium and Germany for (euro)8 million (approximately \$10 million). Cleton posted 2005 revenues in excess of \$50 million and employs close to 400 people. Cleton specializes in providing scaffolding and related insulation services for the maintenance of large-scale industrial plants, and serves some of the largest oil refinery, petrochemical, and process plant sites in the Benelux countries. Cleton has been included in the SGB Division of the Access Services Segment.

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### DISPOSITIONS - ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Consistent with the Company's strategic focus to grow and allocate financial resources to industrial services businesses, in January 2007, the Company's Board of Directors approved the divestiture of its Gas Technologies Segment, which consists of manufacturing businesses. This Segment recorded revenues and operating income of \$397.7 million and \$14.2 million, respectively, for 2006. The Company expects the divestiture to occur in the second half of 2007. Results of operations of the Segment have been included in Discontinued Operations of the income statement effective with this first quarter 2007 report. The Segment's assets and liabilities have been classified as held-for-sale in the March 31, 2007 balance sheet.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

The major classes of assets and liabilities "held-for-sale" included in the Consolidated Balance Sheets are as follows:

(IN THOUSANDS)	MARCH 31(A) 2007	DECEMBER 31 2006
<hr/>		
ASSETS		
Accounts receivable, net	\$ 63,172	\$ --
Inventories	101,489	--
Other current assets	4,829	--
Property, plant and equipment, net	69,529	3,567
Goodwill, net	36,917	--
Other assets	4,664	--
<hr/>		
TOTAL ASSETS "HELD-FOR-SALE"	\$ 280,600	\$ 3,567
<hr/>		
LIABILITIES		
Current maturities of long-term debt	\$ 1,755	\$ --
Accounts payable	31,685	--
Accrued compensation	3,693	--
Income taxes payable	524	--
Other current liabilities	15,404	--
Long-term debt	2,034	--
Retirement plan liabilities	2,073	--
Other liabilities	364	--
<hr/>		
TOTAL LIABILITIES ASSOCIATED WITH ASSETS "HELD-FOR-SALE"	\$ 57,532	\$ --
<hr/>		

(a) March 31, 2007 amounts are predominantly assets and liabilities associated with the Gas Technologies Segment.

Subsequent to the reclassification of the Gas Technologies Segment's results to Discontinued Operations, the Company's results from continuing operations for 2006 are as follows:

THREE MONTHS ENDED

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(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	MARCH 31 2006	JUNE 30 2006	SEPTEMBER 30 2006	DECEMBER 31 2006
Revenues from continuing operations	\$ 682.1	\$ 766.0	\$ 773.3	\$ 804.2
Income from continuing operations	32.6	53.2	54.2	46.4
Diluted Earnings per share from continuing operations	0.39	0.63	0.64	0.55

### H. INCOME TAXES

Income tax expense from continuing operations increased \$4.6 million or 27% for the first quarter of 2007 compared with the first quarter of 2006. This was primarily due to increased earnings from continuing operations, partially offset by a decrease in the effective income tax rate from continuing operations (31.2% for the first quarter of 2007 compared with 32.7% for the first quarter of 2006). The decrease in the effective income tax rate for the first quarter of 2007 was primarily due to the recognition of previously unrecognized tax benefits in certain foreign jurisdictions.

The Company adopted the provisions of FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"), effective January 1, 2007. As a result of the adoption, the Company recognized a cumulative effect reduction to 2007 beginning retained earnings of \$0.5 million. As of the adoption date, the Company had gross tax-affected unrecognized income tax benefits of approximately \$46.0 million, of which \$17.8 million, if recognized, would affect the Company's effective income tax rate. Of this \$46.0 million, \$0.8 million

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

is classified as current and \$45.2 million is classified as non-current on the Company's balance sheet as of March 31, 2007. While the Company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than the accrued position.

The Company recognizes accrued interest and penalties related to unrecognized income tax benefits within its global operations in income tax expense. In conjunction with the adoption of FIN 48, the total amount of accrued interest and penalties resulting from such unrecognized tax benefits was \$4.4 million.

The Company files its income tax returns as prescribed by the tax laws of the jurisdictions in which it operates. With few exceptions, the company is no longer subject to U.S. and foreign examinations by tax authorities for years through 1999. During the first quarter of 2007, the U.S. Internal Revenue Service commenced its audit of the Company's U.S. income tax returns for 2004 and 2005. The Company anticipates that this audit will be completed by early 2008.

The Company is involved in a royalty dispute with the Canada Revenue Agency ("CRA"), which is more fully discussed in Note I, "Commitments and Contingencies," to the Consolidated Financial Statements. This matter is currently in administrative appeals with CRA, and it is reasonably possible that within the next twelve months the Company and the CRA will resolve the matter. At this point in the appeals process, an estimate of a change, if any, to the

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unrecognized tax benefit amount cannot be made.

### I. COMMITMENTS AND CONTINGENCIES

#### ENVIRONMENTAL

The Company is involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a "potentially responsible party" for certain waste disposal sites. While each of these matters is subject to various uncertainties, it is probable that the Company will agree to make payments toward funding certain of these activities and it is possible that some of these matters will be decided unfavorably to the Company. The Company has evaluated its potential liability, and its financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Consolidated Balance Sheets at March 31, 2007 and December 31, 2006 include accruals of \$4.2 million and \$3.8 million, respectively, for environmental matters. The amounts charged against pre-tax income related to environmental matters totaled \$0.6 million and \$0.2 million for the first three months of 2007 and 2006, respectively.

The liability for future remediation costs is evaluated on a quarterly basis. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. The Company does not expect that any sum it may have to pay in connection with environmental matters in excess of the amounts recorded or disclosed above would have a material adverse effect on its financial position, results of operations or cash flows.

#### ROYALTY EXPENSE DISPUTE

The Company is involved in a royalty expense dispute with the Canada Revenue Agency ("CRA"). The CRA is proposing to disallow certain royalty expense deductions claimed by the Company's Canadian subsidiary on its 1994-1998 tax returns. As of March 31, 2007, the maximum assessment from the CRA for the period 1994-1998 is approximately \$10.6 million, including tax and interest. The Ontario Ministry of Finance ("Ontario") is also proposing to disallow these same deductions for the period 1994-1998. As of March 31, 2007, the maximum assessment from Ontario is approximately \$3.3 million, including tax and interest. The Company has filed administrative appeals and will vigorously contest these disallowances.

The Company currently anticipates that, ultimately, it may have a liability for some portion of the assessment in this royalty expense dispute. However, the Company intends to utilize competent authority proceedings in the U.S. to recover a portion of any required tax payment amount. The Company believes that any amount not recovered through these proceedings has been fully reserved as of March 31, 2007 and, therefore will not have a material adverse impact on the Company's future results of operations or financial condition. In accordance with Canadian tax law, the Company made a payment to the CRA in the fourth quarter of 2005 of \$5.0 million. Additionally, the Company made a payment to the Ontario Ministry of Finance in the first quarter of 2006 for the entire disputed amount. These payments were made for tax compliance purposes and to reduce potential interest expense on the disputed amount. These payments in no way reflect the Company's acknowledgement as to the validity of the assessed amounts.

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### PART I - FINANCIAL INFORMATION

#### DERAILMENT

One of the Company's production rail grinders derailed near Baxter, California on November 9, 2006, resulting in two crew member fatalities and the near total loss of the rail grinder. Government and private investigations into the cause of the derailment are on-going. The initial clean-up and salvage efforts are completed, although work on environmental remediation is on-going. Estimated environmental remediation expenses have been recognized as of March 31, 2007. All remaining Company rail grinders have been inspected by the Federal Railroad Administration ("FRA") and each grinder is fully operational. The Company has also conducted its own inspections to ensure that its grinders are safe and in compliance with contractual commitments. The Company believes that the insurance proceeds from the loss of the rail grinder will offset the majority of incurred expenses and contingent liabilities, which have been recognized as of March 31, 2007. Therefore, the Company does not believe that the derailment will have a material adverse effect on its financial position, results of operations or cash flows.

#### OTHER

The Company has been named as one of many defendants (approximately 90 or more in most cases) in legal actions alleging personal injury from exposure to airborne asbestos over the past several decades. In their suits, the plaintiffs have named as defendants, among others, many manufacturers, distributors and installers of numerous types of equipment or products that allegedly contained asbestos.

The Company believes that the claims against it are without merit. The Company has never been a producer, manufacturer or processor of asbestos fibers. Any component within a Company product which may have contained asbestos would have been purchased from a supplier. Based on scientific and medical evidence, the Company believes that any asbestos exposure arising from normal use of any Company product never presented any harmful levels of airborne asbestos exposure, and moreover, the type of asbestos contained in any component that was used in those products was protectively encapsulated in other materials and is not associated with the types of injuries alleged in the pending suits. Finally, in most of the depositions taken of plaintiffs to date in the litigation against the Company, plaintiffs have failed to specifically identify any Company products as the source of their asbestos exposure.

The majority of the asbestos complaints pending against the Company have been filed in New York. Almost all of the New York complaints contain a standard claim for damages of \$20 million or \$25 million against the approximately 90 defendants, regardless of the individual plaintiff's alleged medical condition, and without specifically identifying any Company product as the source of plaintiff's asbestos exposure.

As of March 31, 2007, there are 26,496 pending asbestos personal injury claims filed against the Company. Of these cases, 26,109 were pending in the New York Supreme Court (a trial court) for New York County in New York State. The other claims, totaling 387, are filed in various counties in a number of state courts, and in certain Federal District Courts (including New York), and those complaints generally assert lesser amounts of damages than the New York State court cases or do not state any amount claimed.

As of March 31, 2007, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in 17,008 cases.

In view of the persistence of asbestos litigation nationwide, which has not yet been sufficiently addressed either politically or legally, the Company expects to continue to receive additional claims. However, there have been developments during the past several years, both by certain state legislatures and by certain

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state courts, which could favorably affect the Company's ability to defend these asbestos claims in those jurisdictions. These developments include procedural changes, docketing changes, proof of damage requirements and other changes that require plaintiffs to follow specific procedures in bringing their claims and to show proof of damages before they can proceed with their claim. An example is the action taken by the New York Supreme Court, which is responsible for managing all asbestos cases pending within New York County in the State of New York. This Court issued an order in December 2002 that created a Deferred or Inactive Docket for all pending and future asbestos claims filed by plaintiffs who cannot demonstrate that they have a malignant condition or discernable physical impairment, and an Active or In Extremis Docket for plaintiffs who are able to show such medical condition. As a result of this order, the majority of the asbestos cases filed against the Company in New York County have been moved to the Inactive Docket until such time as the plaintiff can show that they have incurred a physical impairment. As of March 31, 2007, the Company has been listed as a defendant in 189 Active or In Extremis asbestos cases in New York County. The Court's Order has been challenged by plaintiffs.

The Company's insurance carrier has paid all legal and settlement costs and expenses relating to the asbestos litigation to date. The Company has liability insurance coverage available under various primary and excess policies that the Company believes will be available, if necessary, to substantially cover any liability that might ultimately be incurred on these claims.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

The Company intends to continue its practice of vigorously defending these cases as they are listed for trial. It is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although results of operations and cash flows for a given period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate outcome of these cases will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company is subject to various other claims and legal proceedings covering a wide range of matters that arose in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Insurance liabilities are recorded in accordance with SFAS 5, "Accounting for Contingencies." Insurance reserves have been estimated based primarily upon actuarial calculations and reflect the undiscounted estimated liabilities for ultimate losses including claims incurred but not reported. Inherent in these estimates are assumptions which are based on the Company's history of claims and losses, a detailed analysis of existing claims with respect to potential value, and current legal and legislative trends. If actual claims differ from those projected by management, changes (either increases or decreases) to insurance reserves may be required and would be recorded through income in the period the change was determined. When a recognized liability is covered by third-party insurance, the Company records an insurance claim receivable to reflect the covered liability. See Note 1, "Summary of Significant Accounting Policies," of the Company's Form 10-K for the year ended December 31, 2006 for additional information on Accrued Insurance and Loss Reserves.



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J. RECONCILIATION OF BASIC AND DILUTED SHARES

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)	THREE MONTHS ENDED MARCH 31	
	2007	2006
Income from continuing operations	\$ 45,440	\$ 32,625
Average shares of common stock outstanding used to compute basic earnings per common share	84,048	83,645
Dilutive effect of stock-based compensation	530	585
Shares used to compute dilutive effect of stock-based compensation	84,578	84,230
Basic earnings per common share from continuing operations	\$ 0.54	\$ 0.39
Diluted earnings per common share from continuing operations	\$ 0.54	\$ 0.39

All outstanding stock options and restricted stock units were included in the computation of diluted earnings per share at March 31, 2007 and 2006.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

K. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PENSION EXPENSE (INCOME) (IN THOUSANDS)	THREE MONTHS ENDED MARCH 31			
	U.S. PLANS		INTERNATIONAL PLANS	
	2007	2006	2007	2006
Defined benefit plans:				
Service cost	\$ 743	\$ 921	\$ 2,079	\$ 1,144
Interest cost	3,865	3,730	12,144	11,144
Expected return on plan assets	(5,494)	(4,986)	(14,923)	(14,923)
Recognized prior service costs	212	186	230	230
Recognized losses	383	737	3,764	3,764
Amortization of transition liability (asset)	--	(90)	7	7
Curtailment/settlement loss (gain)	1,547	--	--	--
Defined benefit plans pension expense	\$ 1,256	\$ 498	\$ 3,301	\$ 3,301

Defined benefit pension expense in the first quarter of 2007 was \$0.6 million higher than the comparable 2006 period. The increase relates primarily to increased interest cost and a one time curtailment loss in the U.S. in the Gas Technologies Segment, which has been reclassified in Discontinued Operations effective in the first quarter of 2007. These increases were partially offset by decreased expense due to a higher expected return on plan assets as a result of a higher plan asset base resulting from cash contributions and significant

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returns on plan assets in 2006.

In the quarter ended March 31, 2007, the Company contributed \$0.6 million and \$5.7 million for the U.S. and international defined benefit pension plans, respectively. The Company currently anticipates contributing an additional \$1.8 million and \$17.5 million for the U.S. and international plans, respectively, during the remainder of 2007.

In the quarter ended March 31, 2007, the Company's contributions to multi-employer pension plans were \$4.2 million and for defined contribution plans, payments were \$6.2 million.

POSTRETIREMENT BENEFITS EXPENSE (INCOME)	THREE MONTHS ENDED MARCH 31	
(IN THOUSANDS)	2007	2006
Service cost	\$ 1	\$ 1
Interest cost	45	47
Recognized prior service costs	1	1
Recognized gains	(32)	(10)
Postretirement benefits expense	\$ 15	\$ 39

In the quarter ended March 31, 2007, the Company contributed \$75 thousand to the postretirement plans and anticipates contributing approximately \$229 thousand during the remainder of 2007.

### L. NEW FINANCIAL ACCOUNTING STANDARDS ISSUED

SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Statements No. 133 and 140" ("SFAS 155")

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 155, which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 addresses several issues relating to the accounting for financial instruments, including permitting fair value measurement for any hybrid financial instrument that contains an embedded derivative, and eliminating the prohibition on a qualifying special-purpose entity from holding certain derivative instruments. SFAS 155 also provides clarification that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS 155 is effective for all financial instruments issued or acquired after the fiscal year that begins after September 15, 2006 (January 1, 2007 for the Company), with early adoption permitted. The Company implemented SFAS 155 effective January 1, 2007, and it did not have a material impact on the Company's financial position, results of operations or cash flows.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

SFAS No. 156, "Accounting for Servicing of Financial Assets, an Amendment of FASB Statement 140" ("SFAS 156")

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In March 2006, the FASB issued SFAS 156, which amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 156 requires, in certain specified situations, an entity to recognize a servicing asset or servicing liability when it undertakes an obligation to service a financial asset by entering into a servicing contract. SFAS 156 also requires all separately recognized servicing assets and servicing liabilities to be initially recognized at fair value, if practical, and allows entities to choose either the amortization method or the fair value measurement method for subsequent measurement. SFAS 156 is effective for all servicing transactions occurring on or after the beginning of the first fiscal year that begins after September 15, 2006 (January 1, 2007 for the Company), with early adoption permitted. The Company implemented SFAS 156 effective January 1, 2007, and it did not have a material impact on the Company's financial position, results of operations or cash flows.

FASB Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48")  
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In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." It prescribes a recognition threshold and measurement attribute for financial statement recognition and disclosure of tax positions taken or expected to be taken on a tax return. The provisions of FIN 48 are required to be applied to all tax positions upon initial adoption with any cumulative effect adjustment to be recognized as an adjustment to retained earnings. FIN 48 is effective for fiscal periods beginning after December 15, 2006 (January 1, 2007 for the Company). The Company implemented FIN 48 effective January 1, 2007 and recognized a cumulative effect reduction to 2007 beginning retained earnings of \$0.5 million.

SFAS No. 157, "Fair Value Measurements" ("SFAS 157")  
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In September 2006, the FASB issued SFAS 157 to provide a single definition of fair value, establish a framework for measuring fair value in U.S. generally accepted accounting principles ("GAAP"), and expand the disclosure requirements regarding fair value measurements. SFAS 157 is applicable in the application of other accounting pronouncements that require or permit fair value measurements, but does not require new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company), with limited retrospective application required. The Company is currently evaluating the requirements of SFAS 157 and has not yet determined the impact on the consolidated financial statements.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159").  
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In February 2007, the FASB issued SFAS 159, which permits all entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option may be applied financial instrument by financial instrument (with limited exceptions), is generally irrevocable, and must be applied to the entire financial instrument. SFAS 159 is effective for fiscal years that begin after November 15, 2007 (January 1, 2008 for the Company). The Company is currently evaluating the requirements of SFAS 159, and has not yet determined the impact

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on the consolidated financial statements.

### M. DERIVATIVE INSTRUMENTS

The Company may periodically use derivative instruments to hedge cash flows associated with selling price exposure to certain commodities, as well as cash flows related to foreign currency fluctuations. During the first quarter of 2007, the Company executed fixed-price swap agreements to hedge cash flows associated with the selling price exposure to certain commodities. The unsecured contracts outstanding at March 31, 2007 mature monthly through November 2007 and are with major financial institutions. The Company may be exposed to credit loss in the event of non-performance by the other parties to the contracts. The Company evaluates the credit worthiness of the counterparties and does not expect default by them. Company policy prohibits the use of derivatives for speculative purposes.

As of March 31, 2007, outstanding commodity swap agreements had a notional value of \$30.5 million. Based on the requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), these contracts did not qualify as cash flow hedges as of March 31, 2007. As such, they were marked-to-market with the resulting changes in fair value recorded in cost of sales. Although earnings volatility may occur between fiscal quarters if

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

the derivatives do not qualify as cash flow hedges under SFAS 133, the economic substance of the derivatives provides more predictable cash flows by reducing the Company's exposure to the commodity price fluctuations.

See Note 13, "Financial Instruments," of the Company's Form 10-K for the year ended December 31, 2006 for additional information on derivative instruments and hedging activities.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS ----- OF OPERATIONS -----

The following discussion should be read in conjunction with the accompanying unaudited financial statements as well as the Company's annual Form 10-K for the year ended December 31, 2006, which included additional information about the Company's critical accounting policies, contractual obligations, practices and the transactions that support the financial results, and provided a more comprehensive summary of the Company's outlook, trends and strategies for 2007 and beyond.

#### FORWARD-LOOKING STATEMENTS

The nature of the Company's business and the many countries in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Forward-looking statements contained herein could include statements about our management confidence and strategies for performance; expectations for new and existing products, technologies, and opportunities; and expectations

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regarding growth, sales, cash flows, earnings and Economic Value Added (EVA(R)). These statements can be identified by the use of such terms as "may," "could," "expect," "anticipate," "intend," "believe," or other comparable terms.

Factors which could cause results to differ include, but are not limited to: (1) changes in the worldwide business environment in which the Company operates, including general economic conditions; (2) changes in currency exchange rates, certain commodity prices and costs, interest rates and capital costs; (3) changes in the performance of stock and bond markets that could affect the valuation of the assets in the Company's pension plans and the accounting for pension assets, liabilities and expenses; (4) changes in governmental laws and regulations, including taxes and import tariffs; (5) market and competitive changes, including pricing pressures, market demand and acceptance for new products, services and technologies; (6) unforeseen business disruptions in one or more of the many countries in which the Company operates due to political instability, civil disobedience, armed hostilities or other calamities; and (7) other risk factors listed from time to time in the Company's SEC reports. A further discussion of these, along with other potential factors, can be found in Part II, Item 1A, "Risk Factors," of this Form 10-Q. The Company cautions that these factors may not be exhaustive and that many of these factors are beyond the Company's ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty to update forward-looking statements.

### EXECUTIVE OVERVIEW

The Company's record performance in the first quarter of 2007 reflected the continued execution of the Company's strategy of growth through increased international diversity and a focused, industrial services-based portfolio, augmented by selective strategic acquisitions. The first quarter results were led by the Access Services Segment, which achieved record levels for revenues, operating income and operating margins.

Additionally, during the first quarter of 2007, the Company's Board of Directors approved the divestiture of the Gas Technologies manufacturing business, which is expected to occur in the second half of 2007. Also in the first quarter, the Company acquired Excell Minerals, which specializes in the reclamation and recycling of high-value content from steelmaking slag, and is involved in the development of minerals-based products for commercial applications. Additionally, effective in the first quarter of 2007, there was a two-for-one stock split for which one additional share of common stock was issued to stockholders as of the effective date.

The Company's first quarter 2007 revenues from continuing operations were a record \$840.0 million. This is an increase of \$158.0 million or 23% over the first quarter of 2006. Income from continuing operations was a record \$45.4 million compared with \$32.6 million in 2006, an increase of 39%. Diluted earnings per share from continuing operations were a record \$0.54, a 39% increase over 2006.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

The first quarter of 2007 results benefited from increased performance in the Access Services Segment and the February 1, 2007 acquisition of Excell Minerals. The increased performance in the Access Services Segment was due to continued strength in the Company's worldwide non-residential and commercial construction and industrial maintenance markets, and positive returns from the Company's increased investment in highly engineered formwork rental systems. Excell

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Minerals' operating results during the quarter were accretive to the Company's earnings.

Overall global markets remain strong and provide the Company numerous expansion opportunities to pursue its prudent acquisition strategy of seeking further accretive bolt-on acquisitions, as well as organic investments in its industrial services platforms. The Company also expects continued strength in its operations for the remainder of 2007, particularly from the Access Services Segment, as well as from Excell Minerals, and the industrial grating products and air-cooled heat exchangers businesses. In addition, the Company expects improvement during the remainder of 2007 from the Mill Services Segment as production levels normalize in the U.S., new contracts are signed and work started, and unplanned mill maintenance outages diminish.

During the first quarter of 2007, the Company had net cash provided by operating activities of \$41.7 million, a 40% decrease from the record \$69.8 million achieved in the first quarter of 2006, primarily due to increases in working capital to meet near-term demand and timing differences in cash receipts. However, the Company expects to achieve record cash from operations for the full year 2007, exceeding 2006's record of \$409 million. The Company's cash flows are further discussed in the Liquidity and Capital Resources section.

### SEGMENT OVERVIEW

The Access Services Segment's revenues in the first quarter of 2007 were \$316.2 million compared with \$225.8 million in the first quarter of 2006, a 40% increase. Operating income increased by 109% to \$35.0 million, from \$16.8 million in the first quarter of 2006. Operating margins for the Segment improved by 370 basis points to 11.1% from 7.4% in the first quarter of 2006. The record performance in the quarter was due principally to continued strength in the Company's worldwide non-residential and commercial construction and industrial maintenance markets, particularly in Europe and North America. Also benefiting this Segment's results was a gain of \$1.6 million from an asset sale. This Segment accounted for 38% of the Company's revenues and 40% of the operating income for the first quarter of 2007.

Revenues for the first quarter of 2007 for the Mill Services Segment were \$360.8 million compared with \$326.2 million in the first quarter of 2006, an 11% increase. Operating income decreased by 4% to \$32.3 million, from \$33.6 million in the first quarter of 2006, and operating margins decreased by 130 basis points to 9.0% from 10.3%. Performance was negatively impacted by higher operating and maintenance costs, unplanned maintenance outages at a number of mill sites, the timing of new contract signings and start-ups, and lower steel production in certain regions, particularly North America. Operating income was also negatively impacted by a \$1.0 million provision associated with the termination of a mill services contract. This Segment accounted for 43% of the Company's revenues and 37% of the operating income for the first quarter of 2007.

The Minerals & Rail Technologies, Services and Products ("All Other") Category's revenues in the first quarter of 2007 were \$163.0 million compared with \$130.0 million in the first quarter of 2006, a 25% increase. Operating income increased by 26% to \$19.4 million, from \$15.4 million in the first quarter of 2006. The February 1, 2007 acquisition of Excell Minerals, which was accretive to earnings, contributed to this Category's improved performance in the quarter. Four of the other five businesses contributed higher revenues, and three of the five businesses contributed higher operating income in the first quarter of 2007 compared with the first quarter of 2006. Operating margins were 11.9% for the first quarter of 2007, the same as the first quarter of 2006. This Category accounted for 19% of the Company's revenues and 23% of the operating income for the first quarter of 2007.

### OUTLOOK OVERVIEW

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The Company's operations span several industries and products as discussed in Part I, Item 1, "Business," of the Company's Form 10-K for the year ended December 31, 2006. On a macro basis, the Company is affected by non-residential and commercial construction and industrial maintenance activities; worldwide steel mill production and capacity utilization; industrial production volume; and the general business trend towards the outsourcing of services. The overall outlook for 2007 continues to be positive for these business drivers.

Both international and domestic Access Services activity remains strong. Operating performance in 2007 for this Segment has benefited, and is expected to continue to benefit, from increased non-residential and commercial construction spending and industrial maintenance activity in the Company's major markets; selective strategic investments or acquisitions in new markets and expansion of current product lines; further market penetration from new products; product cross-selling opportunities among the markets served by the three Access Services businesses; and

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

business optimization opportunities through consolidated procurement, logistics and continuous process improvement initiatives. Further global expansion and market share gains are also expected from this Segment.

The outlook for the Mill Services Segment for the remainder of the year remains positive. Liquid steel production in the U.S. has recently begun to improve over last year and global steel production, even excluding China, is expected to exceed that of 2006. In addition, bidding activity on new contract opportunities remains strong and signings should gain momentum as the year progresses. The Company is actively engaged in process improvement initiatives designed to improve operating results. However, the Company may experience higher operating costs, such as maintenance and energy, that could have a negative impact on operating margins, to the extent these costs cannot be passed to customers.

The outlook for the Minerals & Rail Technologies, Services and Products ("All Other") Category remains positive. Excell Minerals is expected to be accretive to earnings in the remaining quarters of 2007, as full integration into the Company occurs. The Category's remaining units continue to have an overall positive outlook, particularly industrial grating products as well as the air-cooled heat exchangers business, which continues to benefit from strong market demand for its gas compression equipment. The railway track maintenance services and equipment business has been experiencing substantial international quoting activity that is expected to result in longer-term sales, income and margin growth.

The stable or improved market conditions for most of the Company's services and products and the significant investments made recently for acquisitions (such as the Excell Minerals acquisition for approximately \$210 million in February 2007) and growth-related capital expenditures provide the base for achieving the Company's stated objective of growth in diluted earnings per share from continuing operations and net cash provided by operating activities for the full year 2007. The record performance for revenue and operating income achieved in the first three months of 2007 provides a solid foundation towards achieving the full-year objectives.

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#### REVENUES BY REGION

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TOTAL REVENUES

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(DOLLARS IN MILLIONS)	THREE MONTHS ENDED MARCH 31		PERCENTAGE GROWTH FROM 2006 TO 2007		
	2007	2006	VOLUME	CURRENCY	TOTAL
Europe	\$ 443.5	\$ 342.8	18.7%	10.7%	29.4%
North America	276.8	233.6	18.6	(0.1)	18.5
Latin America	45.6	40.2	12.7	0.7	13.4
Middle East and Africa	41.4	40.9	6.5	(5.1)	1.4
Asia/Pacific	32.7	24.6	25.0	7.8	32.8
Total	\$ 840.0	\$ 682.1	17.8%	5.4%	23.2

### 2007 HIGHLIGHTS

The following significant items affected the Company overall during the first quarter of 2007 in comparison with the first quarter of 2006:

#### Company Wide:

- o Continued strong worldwide economic activity, as well as the accretive earnings performance of the Excell Minerals acquisition, benefited the Company in the first quarter of 2007. This included increased access equipment services, sales and rentals, especially in North America and Europe, and increased demand for air-cooled heat exchangers.
- o Consistent with its overall strategic focus on global industrial services businesses, the Company announced in January 2007 its intention to divest the Gas Technologies manufacturing business group. In the first quarter of 2007, industrial services businesses accounted for a record 86% of total revenues from continuing operations.
- o During the first quarter of 2007, international sales and operating income were 69% and 75%, respectively, of total sales and operating income. This compares with the first quarter of 2006 levels of 68% of sales and 78% of operating income.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

#### ACCESS SERVICES SEGMENT:

(IN MILLIONS)	THREE MONTHS ENDED MARCH 31	
	2007	2006
Revenues	\$ 316.2	\$ 225.8
Operating income	35.0	16.8
Operating margin percent	11.1%	7.4%

#### ACCESS SERVICES SEGMENT - SIGNIFICANT IMPACTS ON REVENUES

(IN MILLIONS)	THREE MONTHS ENDED MARCH 31	
Revenues - 2006	\$	225.8
Net increased volume and new business		53.5



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Acquisitions	20.6
Impact of foreign currency translation	16.3

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Revenues - 2007	\$ 316.2
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ACCESS SERVICES SEGMENT - SIGNIFICANT IMPACTS ON OPERATING INCOME:

- o In the first quarter of 2007, the international access services business, and Eastern Europe in particular, continued to improve due to increased non-residential and commercial construction spending in the Company's major markets. The Company has benefited from its recent rental equipment capital investments made in these markets. Equipment rentals, particularly in the construction sector, provide the highest margins in this Segment.
- o The North American non-residential construction and industrial maintenance markets remained buoyant in the first quarter of 2007. This had a positive effect on volume which caused overall margins and operating income in North America to improve.
- o The MyATH (Chile) and Cleton acquisitions were accretive to earnings in the first quarter of 2007.
- o Operating income and margins were positively affected in the first quarter of 2007 due to a \$1.6 million gain on an asset sale.
- o Foreign currency translation in the first quarter of 2007 increased operating income for this Segment by \$0.8 million, compared with the first quarter of 2006.

MILL SERVICES SEGMENT:

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	THREE MONTHS ENDED MARCH 31	
(DOLLARS IN MILLIONS)	2007	2006
Revenues	\$ 360.8	\$ 326.2
Operating income	32.3	33.6
Operating margin percent	9.0%	10.3%

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MILL SERVICES SEGMENT - SIGNIFICANT IMPACTS ON REVENUES

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	THREE MONTHS ENDED MARCH 31	
(IN MILLIONS)		
Revenues - 2006	\$	326.2
Increased volume and new business		13.6
Acquisitions		1.8
Impact of foreign currency translation		19.2
Revenues - 2007	\$	360.8

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

MILL SERVICES SEGMENT - SIGNIFICANT IMPACTS ON OPERATING INCOME:

- o Despite overall increased volume, operating income for the first quarter of 2007 was negatively impacted by increased operating and maintenance expenses, unplanned outages at a number of mills, and lower steel production in certain regions, particularly in North America.

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- o In the first quarter of 2007, this Segment's operating income was adversely impacted by a \$1.0 million provision associated with the termination of a contract. This was partially offset by higher gains on the disposal of assets.
- o Foreign currency translation in the first quarter of 2007 increased operating income for this Segment by \$1.6 million, compared with the first quarter of 2006.

### MINERALS & RAIL TECHNOLOGIES, SERVICES AND PRODUCTS ("ALL OTHER") CATEGORY:

(IN MILLIONS)	THREE MONTHS ENDED MARCH 31	
	2007	2006
Revenues	\$ 163.0	\$ 130.0
Operating income	19.4	15.4
Operating margin percent	11.9%	11.9%

### MINERALS & RAIL TECHNOLOGIES, SERVICES AND PRODUCTS ("ALL OTHER") CATEGORY - THREE MONTHS SIGNIFICANT IMPACTS ON REVENUES ENDED MARCH 31

(IN MILLIONS)	
Revenues - 2006	\$ 130.0
Acquisitions	21.6
Industrial grating products	4.9
Air-cooled heat exchangers	4.8
Railway track maintenance services and equipment	3.4
Boiler and process equipment	0.4
Roofing granules and abrasives	(3.1)
Impact of foreign currency translation	1.1
Other	(0.1)
Revenues - 2007	\$ 163.0

### MINERALS & RAIL TECHNOLOGIES, SERVICES AND PRODUCTS ("ALL OTHER") CATEGORY - SIGNIFICANT IMPACTS ON OPERATING INCOME:

- o The Excell Minerals acquisition was accretive to the Category's performance in the first quarter.
- o Operating income of the air-cooled heat exchangers business continued to benefit from increased volume resulting from a strong natural gas market.
- o The railway track maintenance services and equipment business delivered increased income in the first quarter of 2007 compared with 2006, due to increased contract services volume and reduced operating expenses,

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- partially offset by lower repair parts volume and an unfavorable rail equipment sales mix.
- o Operating income for the boiler and process equipment business was slightly lower in the first quarter of 2007 compared with 2006, due to decreased process equipment sales resulting from the timing of shipments and increased commodity costs.
  - o Lower volume and higher operating expenses resulted in slightly lower operating income for the roofing granules and abrasives business in the first quarter of 2007 compared with 2006.
  - o The impact of foreign currency translation in the first quarter of 2007 did not have a material impact on operating income for this Category when compared with the first quarter of 2006.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

#### OUTLOOK, TRENDS AND STRATEGIES

Looking to the remainder of 2007 and beyond, the following significant items, trends and strategies are expected to affect the Company:

#### Company Wide:

- 
- o The Company will continue its focus on expanding the industrial services businesses, with a particular emphasis on growing the Access Services Segment, the Mill Services Segment, especially in emerging economies, and other specialized services. Growth is expected to be achieved through the provision of additional services to existing customers, new contracts in both developed and emerging markets, and strategic acquisitions, such as the February 2007 acquisition of Excell Minerals. Additionally, new higher-margin service and sales opportunities in railway services and equipment will be pursued globally.
  - o In January 2007, the Company announced its intention to divest the Gas Technologies manufacturing business. This decision is consistent with the Company's overall strategic focus on industrial services businesses. The divestiture is expected to be completed in the second half of 2007.
  - o The Company will continue to invest in selective strategic acquisitions and growth capital investments; however, management will be very selective in its investments, choosing projects with the highest Economic Value Added ("EVA(R)") potential.
  - o A greater focus on corporate-wide expansion into emerging economies is expected in the coming years. More specifically, within the next three to five years, a focused strategy of the Company is to approximately double its presence in the Latin American, Asia-Pacific, Middle East and Africa, and Eastern European markets to approximately 30% of total revenues.
  - o Controllable cost reductions and continuous process improvement initiatives across the Company are targeted to further enhance margins for most businesses. These initiatives include improved supply-chain and logistics management; additional outsourcing in the manufacturing businesses; and an added emphasis on corporate-wide procurement initiatives. The Company will use its increased size and leverage due to recent acquisitions to reduce vendor costs and focus on additional opportunities for cost reductions via procurement in low-cost countries such as China and India.
  - o The Company expects strong cash flow from operating activities in 2007, exceeding the record of \$409 million achieved in 2006. This, combined with the expected cash from the Gas Technologies Segment divestiture, as well as other assets sales, will support both the Company's growth initiatives and help reduce debt.
  - o The continued growth of the Chinese steel industry, as well as other Asian

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emerging economies, could impact the Company in several ways. Increased steel mill production in China, and in other Asian countries, may provide additional service opportunities for the Mill Services Segment. However, increased Asian steel exports could result in lower steel production in other parts of the world, affecting the Company's customer base. Additionally, continued increased Chinese economic activity may result in increased commodity costs in the future, which may adversely affect the Company's manufacturing businesses. The potential impact of these risks is currently unknown.

- o Volatility in energy and commodity costs (e.g., fuel, natural gas, steel, etc.) and worldwide demand for these commodities could have an adverse effect on the Company's operating costs and ability to obtain the necessary raw materials. Cost increases could result in reduced operating income for certain products, to the extent that such costs cannot be passed on to customers. The effect of any Middle East armed hostilities on the cost of fuel and commodities is currently unknown, but it could have a significant effect.
- o The armed hostilities in the Middle East could also have a significant effect on the Company's operations in the region. The potential impact of this risk is currently unknown. This exposure is further discussed in Part II, Item 1A, "Risk Factors."
- o Foreign currency translation had an overall favorable effect on the Company's sales, operating income and Stockholders' equity as a result of translation adjustments during the first quarter of 2007. If the U.S. dollar strengthens, particularly in relationship to the euro or British pound sterling, the impact on the Company would generally be negative in terms of reduced sales, income and Stockholders' equity.
- o Total pension expense (defined benefit, defined contribution and multi-employer) for 2007 is expected to approximate or be slightly higher than the 2006 level. Defined benefit pension expense increased \$0.6 million in the first quarter of 2007 compared to the first quarter of 2006 due principally to a one-time curtailment loss related to the Gas Technologies Segment. Defined benefit pension expense is expected to decline for the full year due to the significant level of cash contributions, including voluntary cash contributions to the defined benefit pension plans (approximately \$10.6 million during 2006 and \$16.9 million during 2005, mostly to the U.K. plan), which will have a positive effect on future years' pension expense, as well as the higher-than-expected plan asset returns in 2006. The Company's pension task force continues to evaluate alternative strategies to further mitigate overall pension expense, including the on-going evaluation of investment fund managers' performance; the balancing of plan assets and liabilities; the risk assessment of all multi-employer pension plans; the possible merger of certain plans; the consideration of incremental cash contributions to certain plans; and other changes that should mitigate future volatility and expense.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

On a comparative basis, total pension expense during the first quarter of 2007 was \$2.9 million higher than the first quarter of 2006, due principally to the one-time curtailment loss related to the Gas Technologies Segment, as well as increased defined contribution and multi-employer pension expense resulting from increased volume in the Access Services and Mill Services Segments.

- o Changes in worldwide interest rates, particularly in the U.S. and Europe, could have a significant effect on the Company's overall interest expense, as approximately 58% of the Company's borrowings are at variable interest rates as of March 31, 2007 (in comparison to approximately 48% at December

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31, 2006). The Company manages the mix of fixed-rate and floating-rate debt to preserve adequate funding flexibility, as well as control the effect of interest-rate changes on consolidated interest expense. The Company also plans to pay down debt to the extent possible.

### Access Services Segment:

- o Both the international and domestic Access Services businesses have experienced buoyant markets that are expected to continue throughout 2007. Specifically, international and North American non-residential and commercial construction activity continues at historically high volume levels. Additionally, recent product line additions continue to benefit growth in North America.

### Mill Services Segment:

- o To maintain pricing levels, a more disciplined steel industry has been adjusting production levels to bring inventories in-line with current demand. Based on current market conditions and industry reports, the Company expects global steel production to remain stable or increase slightly in 2007, which would generally have a favorable effect on this Segment's revenues.
- o Further consolidation in the global steel industry is probable. Should additional transactions occur involving some of the steel industry's larger companies that are customers of the Company, it would result in an increase in concentration of revenues and credit risk for the Company. If a large customer were to experience financial difficulty, or file for bankruptcy protection, it could adversely impact the Company's income, cash flows and asset valuations. As part of its credit risk management practices, the Company closely monitors the credit standing and accounts receivable position of its customer base. Further consolidation may also increase pricing pressure on the Company and the competitive risk of services contracts which are up for renewal. Conversely, such consolidation may provide additional service opportunities for the Company as the Company believes it is well-positioned competitively.
- o The Company continues to place significant emphasis on improving operating margins of this Segment. Margin improvements are most likely to be achieved through internal business optimization efforts such as global procurement initiatives; process improvement programs; maintenance best practices programs; and reorganization actions.

### Minerals & Rail Technologies, Services and Products ("all other") Category:

- o Worldwide demand for specialty steel, and other high-value metals, continues to be strong and provides opportunities for Excell Minerals to expand its value-added services of extracting high-value metallic content from slag and responsibly handling and recycling residual materials. However, market pricing volatility for some of these materials could affect the operating results for this business, both favorably or unfavorably.
- o International demand for the railway track maintenance services and equipment business's products and services is expected to be strong in the long term. In addition, increased volume of higher-margin contract services and manufacturing process improvements and efficiencies are expected to improve margins on a long-term basis.
- o Worldwide supply and demand for steel could have an adverse impact on raw material costs and the ability to obtain the necessary raw materials for several businesses in this Category. The Company has implemented certain strategies and plans to help ensure continued product supply to our customers and mitigate the potentially negative impact that rising steel prices could have on operating income.
- o The abrasives business and, to a lesser extent, roofing granules are expected to continue to perform well long-term, although operating margins

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could be impacted by volatile energy prices that affect both production and transportation costs. This business has pursued the use of more energy-efficient equipment to help mitigate future energy-related increases.

- o Due to a strong natural gas market and additional North American opportunities, demand for air-cooled heat exchangers is expected to remain strong for 2007.

### Gas Technologies Segment:

- o In January 2007, the Company announced its intention to divest the Gas Technologies manufacturing business. This decision is consistent with the Company's overall strategic focus on industrial services businesses.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

#### RESULTS OF OPERATIONS

(DOLLARS ARE IN MILLIONS, EXCEPT PER SHARE AND PERCENTAGES)	THREE MONTHS ENDED MARCH 31	
	2007	2006
Revenues from continuing operations	\$ 840.0	\$ 682.1
Cost of services and products sold	625.6	502.4
Selling, general and administrative expenses	127.8	112.3
Other (income) expenses	(0.9)	1.8
Operating income from continuing operations	86.6	65.1
Interest expense	18.6	14.1
Income tax expense from continuing operations	21.6	17.0
Income from continuing operations	45.4	32.6
Income from discontinued operations	2.2	1.6
Net income	47.7	34.3
Diluted earnings per common share from continuing operations	0.54	0.39
Diluted earnings per common share	0.56	0.41
Effective income tax rate for continuing operations	31.2%	32.7%
Consolidated effective income tax rate	31.1%	32.6%

#### COMPARATIVE ANALYSIS OF CONSOLIDATED RESULTS

##### REVENUES

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Revenues for the first quarter of 2007 increased \$158.0 million or 23% from the first quarter of 2006. The increase was attributable to the following significant items:

### CHANGES IN REVENUES - 2007 VS. 2006

(IN MILLIONS)

Net increased revenues (excluding acquisitions) in the Access Services Segment due principally to the continued strength of both the North American and international businesses (particularly in Europe)

Effect of business acquisitions in the Access Services Segment (\$20.6 million), the Mill Services Segment (\$1.8 million), and the Minerals & Rail Technologies, Services and Products ("all other") Category (\$21.6 million)

Effect of foreign currency translation

Net increased volume, new contracts and sales price changes in the Mill Services Segment (excluding acquisitions)

Increased revenues in the industrial grating products business due to continued strong demand

Increased revenues of the air-cooled heat exchangers business due to a continued strong natural gas market

Increased revenues in the railway track maintenance services and equipment business due to increased contract services and rail equipment sales, partially offset by decreased repair parts sales

Other (minor changes across the various units not already mentioned)

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Total Change in Revenues - 2007 vs. 2006

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

#### COST OF SERVICES AND PRODUCTS SOLD

Cost of services and products sold for the first quarter of 2007 increased \$123.3 million, or 25%, from the first quarter of 2006, a higher rate than the 23% increase in revenues. This increase was attributable to the following significant items:

### CHANGES IN COST OF SERVICES AND PRODUCTS SOLD - 2007 VS. 2006

(IN MILLIONS)

Increased costs due to increased revenues (exclusive of the effect of foreign currency translation and business acquisitions and including the impact of increased commodity costs included in selling prices)

Effect of business acquisitions

Effect of foreign currency translation

Other (due to increased commodity costs not recovered through selling prices and increased equipment maintenance costs, partially offset by process improvements and volume-related efficiencies)

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Total Change in Cost of Services and Products Sold - 2007 vs. 2006

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses for the first quarter of 2007 increased \$15.5 million or 14% from the first quarter of 2006, a lower rate than the 23% increase in revenues. The increase in SG&A expense was attributable to the following significant items with the principal driver being the continued expansion of the business:

#### CHANGES IN SELLING, GENERAL AND ADMINISTRATIVE EXPENSES - 2007 VS. 2006

(IN MILLIONS)

Effect of foreign currency translation

Increased compensation expense due to salary increases, increased headcount and employee incentive plan costs due to improved performance, as well as higher commissions due to increased volume

Effect of business acquisitions

Other

Total Change in Selling, General and Administrative  
Expenses - 2007 vs. 2006

### OTHER (INCOME) EXPENSES

This income statement classification includes impaired asset write-downs, employee termination benefit costs and costs to exit activities, offset by net gains on the disposal of non-core assets. Net Other income was \$0.9 million in the first quarter of 2007, compared with expense of \$1.8 million in the comparable 2006 period. This variance was attributable to the following significant items:

#### CHANGES IN OTHER (INCOME) EXPENSES - 2007 VS. 2006

(IN MILLIONS)

Increase in net gains on the disposal of non-core assets

Decrease in other exit costs due principally to a loss on a sublease in the first quarter of 2006

Decrease in employee termination benefit costs

Total Change in Other Expenses - 2007 vs. 2006

### INTEREST EXPENSE

Interest expense for the first quarter of 2007 increased \$4.5 million or 32% from the first quarter of 2006. This increase was principally due to increased borrowings to finance business acquisitions and higher interest rates on



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variable-rate borrowings. Additionally, there was approximately \$0.8 million of increased interest expense due to the effect of foreign currency translation.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

#### INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

Income tax expense from continuing operations increased \$4.6 million or 27% for the first quarter of 2007 compared with the first quarter of 2006. This was primarily due to increased earnings from continuing operations, partially offset by a decrease in the effective income tax rate from continuing operations (31.2% for the first quarter of 2007 compared with 32.7% for the first quarter of 2006). The decrease in the effective income tax rate for the first quarter of 2007 was primarily due to the recognition of previously unrecognized tax benefits in certain foreign jurisdictions.

#### INCOME FROM CONTINUING OPERATIONS

Income from continuing operations increased \$12.8 million or 39% in the first quarter of 2007 compared with the first quarter of 2006. This increase resulted from strong demand for most of the Company's services and products and the net effect of business acquisitions and divestitures.

#### INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations increased \$0.6 million or 36% in the first quarter of 2007 compared with the first quarter of 2006. This was primarily due to increased income from the operations of the Gas Technologies Segment of \$3.1 million, partially offset by \$2.3 million of transaction costs related to the anticipated sale of this Segment.

#### NET INCOME AND EARNINGS PER SHARE

Net income of \$47.7 million and diluted earnings per share of \$0.56 in the first quarter of 2007 exceeded the first quarter of 2006 by \$13.4 million or 39% and \$0.15 or 37%, respectively. These increases are primarily due to increased income from continuing operations for the reasons described above.

#### LIQUIDITY AND CAPITAL RESOURCES

##### OVERVIEW

During the first quarter of 2007, the Company generated \$41.7 million in operating cash, 40.3% lower than the \$69.8 million in the first quarter of 2006. The main reasons for the decline are working capital build-up in the Gas Technologies Segment to meet near-term demand and timing differences in cash receipts. More specifically, a build up of inventory in the Gas Technologies Segment resulted in approximately \$15 million lower cash from operations during the first quarter of 2007 when compared with the first quarter of 2006. Although the Gas Technologies Segment is classified as held-for-sale on the balance sheet the Segment's cash flows are still included in their respective categories in the Consolidated Statements of Cash Flows. Additionally, the railway track maintenance services and equipment business had approximately \$13 million lower cash from operations during the first quarter of 2007 when compared with the first quarter of 2006 due to a \$20 million dollar cash receipt from China in the first quarter of 2006 that was not repeated in the first quarter of 2007. Despite the first quarter decrease in operating cash, the Company expects to achieve record cash from operations for the full year 2007, exceeding 2006's \$409 million.

In the first quarter of 2007, the Company invested \$83.4 million in capital expenditures (over 45% of which were for revenue-growth projects); paid \$14.9

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million in stockholder dividends; and invested \$212.3 million in business acquisitions. The Company also generated \$4.5 million of cash from the sale of non-core assets during the first quarter of 2007.

The Company's net cash borrowings increased \$265.1 million in the first quarter of 2007 due primarily to business acquisitions. Balance sheet debt, which is affected by foreign currency translation and the reclassification of debt related to the Gas Technologies Segment to held-for-sale, increased \$265.7 million from December 31, 2006. The debt to total capital ratio increased from 48.1% to 52.6% as a result of increased borrowings.

The Company's strategy remains to redeploy discretionary cash for growth and international diversification in the Access Services Segment; in long-term, high-return and high-renewal-rate services contracts for the Mill Services business, principally in emerging economies; for growth and international diversification in the Minerals & Rail Technologies, Services and Products ("all other") Category; and for selective bolt-on acquisitions in the industrial services businesses. The Company also foresees continuing its long and consistent history of paying dividends to stockholders and paying down debt.

The Company also intends to focus on improved working capital management. Specifically, accounts receivable in the Access Services and Mill Services Segments and inventory levels in the manufacturing businesses will continue to be scrutinized and challenged to improve the Company's use of funds.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

#### SOURCES AND USES OF CASH

The Company's principal sources of liquidity are cash from operations and short-term borrowings under its various credit agreements, augmented periodically by cash proceeds from asset sales. The sale of the Gas Technologies Segment, currently held-for-sale, is expected to provide a significant source of cash in the second half of 2007.

The primary drivers of the Company's cash flow from operations are the Company's sales and income, particularly in the services businesses. The Company's long-term Mill Services contracts provide predictable cash flows for several years into the future. (See "Certainty of Cash Flows" section for additional information on estimated future revenues of Mill Services contracts and order backlogs for the Company's manufacturing businesses and railway track maintenance services and equipment business). Cash returns on capital investments made in prior years, for which no cash is currently required, are a significant source of operating cash. Depreciation expense related to these investments is a non-cash charge. The Company also continues to maintain working capital at a manageable level based upon the requirements and seasonality of the businesses.

Major uses of operating cash flows and borrowed funds include payroll costs and related benefits; pension funding payments; inventory purchases; raw material purchases for the manufacturing businesses; income tax payments; debt principal and interest payments; insurance premiums and payments of self-insured casualty losses; and machinery, equipment, automobile and facility rental payments. Other primary uses of cash include capital investments, principally in the industrial services businesses; and dividend payments. Cash will also be used for selective bolt-on acquisitions as the appropriate opportunities arise.

In addition to cash requirements previously disclosed in the Company's 2006 10-K, upon the adoption of FIN 48, the Company had a current obligation of \$0.8

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million. An additional \$45.2 million is classified as a long-term liability. See Note H, "Income Taxes," for additional information on FIN 48.

RESOURCES AVAILABLE FOR CASH REQUIREMENTS - The Company has various credit facilities and commercial paper programs available for use throughout the world. The following table illustrates the amounts outstanding under credit facilities and commercial paper programs and available credit at March 31, 2007.

SUMMARY OF CREDIT FACILITIES AND COMMERCIAL PAPER PROGRAMS	AS OF MARCH 31, 2007		
(IN MILLIONS)	FACILITY LIMIT	OUTSTANDING BALANCE	AVAILABLE CREDIT
U.S. commercial paper program	\$ 550.0	\$ 518.8	\$ 31.2
Euro commercial paper program	266.7	201.3	65.4
Revolving credit facility (a)	450.0	--	450.0
Supplemental credit facility (a)	250.0	--	250.0
Bilateral credit facility (b)	50.0	--	50.0
TOTALS AT MARCH 31, 2007	\$1,566.7	\$ 720.1	\$ 846.6(c)

- (a) U.S.-based program
- (b) International-based program
- (c) Although the Company has significant available credit, it is the Company's policy to limit aggregate commercial paper and credit facility borrowings at any one time to a maximum of \$750 million.

On April 16, 2007, the Company entered into credit agreements with the Royal Bank of Scotland Finance (Ireland) and the Royal Bank of Scotland plc for borrowings of up to \$125 million and \$75 million, respectively. Each credit agreement terminates no later than December 31, 2007. In conjunction with entering into these new facilities, the Company amended its policy to limit aggregate commercial paper and credit facility borrowings at any one time from the maximum of \$750 million noted above to a maximum of \$825 million. These credit agreements provide the Company with additional financial flexibility to pursue its growth strategies.

For more information on the Company's credit facilities and long-term notes, see Note 6, "Debt and Credit Agreements," to the Company's Form 10-K for the year ended December 31, 2006.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

CREDIT RATINGS AND OUTLOOK - The following table summarizes the Company's debt ratings at March 31, 2007:

LONG-TERM NOTES	U.S.-BASED COMMERCIAL PAPER	OUTLOOK

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Standard & Poor's (S&P)	A-	A-2	Stable
Moody's	A3	P-2	Stable
Fitch	A-	F2	Stable

The Company's euro-based commercial paper program has not been rated since the euro market does not require it. In August 2006, S&P reaffirmed its A- and A-2 ratings for the Company's long-term notes and U.S. commercial paper, respectively, and its stable outlook. In January 2007, Fitch reaffirmed its A- and F2 ratings for the Company's long-term notes and U.S. commercial paper, respectively, and its stable outlook. Also in January 2007, Moody's reaffirmed its ratings for the Company, and in February 2007 reaffirmed its short-term rating. A downgrade to the Company's credit ratings would probably increase borrowing costs to the Company, while an improvement in the Company's credit ratings would probably decrease borrowing costs to the Company.

WORKING CAPITAL POSITION - Changes in the Company's working capital are reflected in the following table:

(DOLLARS ARE IN MILLIONS)	MARCH 31 2007	DECEMBER 2006
CURRENT ASSETS		
Cash and cash equivalents	\$ 102.0	\$ 102.0
Accounts receivable, net	757.6	757.6
Inventories	219.6	219.6
Other current assets	74.6	74.6
Assets held-for-sale	280.6	280.6
Total current assets	1,434.4	1,434.4
CURRENT LIABILITIES		
Notes payable and current maturities	446.7	446.7
Accounts payable	260.3	260.3
Accrued compensation	70.7	70.7
Income taxes payable	36.4	36.4
Other current liabilities	282.7	282.7
Liabilities associated with assets held-for-sale	57.5	57.5
Total current liabilities	1,154.3	1,154.3
WORKING CAPITAL	\$ 280.1	\$ 280.1
CURRENT RATIO	1.2:1	1.2:1

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Working capital decreased approximately 13% in the first quarter of 2007 due principally to the following factors:

- o Notes payable and current maturities increased \$248.5 million primarily due to an increase in short-term debt resulting from the Excell Minerals acquisition.
- o Assets held-for-sale increased \$277.0 million and liabilities associated with assets held-for-sale increased \$57.5 million due to the reclassification of the Gas Technologies Segment to Discontinued Operations in the first quarter of 2007. All related assets and liabilities have been reclassified to held-for-sale as of March 31, 2007.
- o Decreased finished goods, work-in-process and raw materials inventories due to the reclassification of the Gas Technologies Segment's inventories to assets held-for-sale in the first quarter of 2007.
- o Accounts payable decreased \$26.7 million primarily due to the reclassification of the Gas Technologies Segment into liabilities associated with assets held-for-sale, partially offset by the acquisition of Excell Minerals.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

- o Accrued compensation decreased \$24.3 million due principally to the payments of incentive compensation earned during 2006.
- o Income taxes payable decreased \$25.6 million due principally to reclassifications of certain amounts to noncurrent liabilities as a result of implementing FIN 48.

CERTAINTY OF CASH FLOWS - The certainty of the Company's future cash flows is underpinned by the long-term nature of the Company's mill services contracts. At December 31, 2006, the Company's mill services contracts had estimated future revenues of \$4.4 billion. As of March 31, 2007, the Company's continuing operations had an order backlog of \$266.9 million for its Minerals & Rail Technologies, Services and Products businesses. This compares with \$236.5 million at December 31, 2006 and \$254.9 million at March 31, 2006. The increase from December 31, 2006 is due principally to increased demand for certain products within the railway track maintenance services and equipment business as well as heat exchangers and industrial grating. The increase from March 31, 2006 is due principally to the demand for certain products within the heat exchangers business. The railway track maintenance services and equipment business backlog includes a significant portion that will not be realized until 2008 and later due to the long leadtime necessary to build certain equipment, and the long-term nature of certain service contracts. Order backlog for scaffolding, shoring and forming services; for roofing granules and slag abrasives; and the reclamation and recycling of high-value content from steelmaking slag is excluded from the above amounts. These amounts are generally not quantifiable due to the short order lead times for certain services, the nature and timing of the products and services provided and equipment rentals with the ultimate length of the rental period often unknown.

The types of products and services that the Company provides are not subject to

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rapid technological change, which increases the stability of related cash flows. Additionally, each of the Company's businesses is among the top three companies (relative to sales) in the industries the Company serves. Due to these factors, the Company is confident in its future ability to generate positive cash flows from operations.

### CASH FLOW SUMMARY

The Company's cash flows from operating, investing and financing activities, as reflected in the Condensed Consolidated Statements of Cash Flows, are summarized in the following table:

#### SUMMARIZED CASH FLOW INFORMATION

(IN MILLIONS)	THREE MONTHS ENDED MARCH 31	
	2007	2006
-----		
Net cash provided by (used in):		
Operating activities	\$ 41.7	\$ 69.8
Investing activities	(291.6)	(63.4)
Financing activities	249.2	(31.8)
Effect of exchange rate changes on cash	1.4	3.2
-----		
Net change in cash and cash equivalents	\$ 0.8 (a)	\$ (22.1)
=====		

(a) Does not total due to rounding

**CASH FROM OPERATING ACTIVITIES** - Net cash provided by operating activities in the first quarter of 2007 was \$41.7 million, a decrease of \$28.2 million (40.3%) from the first quarter of 2006. The decreased cash from operations was primarily due to the net receivables increase results from the timing of collections primarily in the railway track maintenance services and equipment business (due to a \$20 million cash collection in the first quarter of 2006 that was not repeated in the first quarter of 2007) and, to a lesser extent, in the international Access Services business as well as the Mill Services business. Additionally, a decrease in cash from operating activities occurred in the Gas Technologies Segment as discussed in the Overview section above.

**CASH USED IN INVESTING ACTIVITIES** - In the first quarter of 2007, cash used in investing activities consisted of \$212.3 million use of cash principally related to the purchase of Excell Minerals in February 2007. Also, capital investments for the first quarter of 2007 were \$83.4 million. This was an increase of \$16.4 million (24.5%) over the first quarter of 2006. Over 45% of the investments were for projects intended to grow future revenues. Investments were made predominantly in the industrial services businesses, with 50% in the Access Services Segment and 43.5% in the Mill Services Segment.

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#### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

Throughout the remainder of 2007 and into 2008, the Company plans to continue to

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invest in high-return projects and selective bolt-on acquisitions, principally in the industrial services businesses.

CASH USED IN FINANCING ACTIVITIES - The following table summarizes the Company's debt and capital positions at March 31, 2007 and December 31, 2006.

(DOLLARS ARE IN MILLIONS)	MARCH 31 2007	DECEMBER 31 2006
Notes Payable and Current Maturities	\$ 446.7	\$ 198.2
Long-term Debt	882.0	864.8
Total Debt	1,328.7	1,063.0
Total Equity	1,197.5	1,146.4
Total Capital	\$ 2,526.2	\$ 2,209.4
Total Debt to Total Capital	52.6%	48.1%

The Company's debt as a percent of total capital as of March 31, 2007 increased from December 31, 2006. Overall debt increased due to the Excell Minerals acquisition, and to a lesser extent, to foreign currency translation resulting from the weakening of the U.S. dollar in comparison with the euro and the British pound sterling. Additionally, total equity increased due principally to increased net income for the first quarter ended March 31, 2007.

### DEBT COVENANTS

The Company's credit facilities and certain notes payable agreements contain covenants requiring a minimum net worth of \$475 million and a maximum debt to capital ratio of 60%. Based on balances at March 31, 2007, the Company could increase borrowings by approximately \$467.5 million and still be within its debt covenants. Alternatively, keeping all other factors constant, the Company's equity could decrease by approximately \$311.7 million and the Company would still be within its covenants. The Company's 7.25% British pound sterling-denominated notes due October 27, 2010 also include a covenant that permits the note holders to redeem their notes, at par, in the event of a change of control of the Company. The Company expects to remain compliant with these debt covenants one year from now.

### CASH AND VALUE-BASED MANAGEMENT

The Company plans to continue with its strategy of selective investing for strategic purposes for the foreseeable future. The goal of this strategy is to improve the Company's Economic Value Added ("EVA(R)") under the program that commenced January 1, 2002. Under this program, the Company evaluates strategic investments based upon the investment's economic profit. EVA equals after-tax operating profits less a charge for the use of the capital employed to create those profits (only the service cost portion of pension expense is included for EVA purposes). Therefore, value is created when a project or initiative produces a return above the cost of capital. Consistent with the first quarter of 2007 results, meaningful improvement in EVA was achieved compared with the first quarter of 2006.

The Company is committed to continue paying dividends to stockholders. The Company has increased the dividend rate for thirteen consecutive years, and in February 2007, the Company paid its 227th consecutive quarterly cash dividend. In March 2007, the Company declared its 228th consecutive quarterly cash

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dividend. The Company also plans to pay down debt. Additionally, the Company has authorization to repurchase up to one million of its shares through January 31, 2008.

The Company's financial position and debt capacity should enable it to meet current and future requirements. As additional resources are needed, the Company should be able to obtain funds readily and at competitive costs. The Company is well-positioned and intends to continue investing strategically in selective high-return projects and acquisitions, to reduce debt, and pay cash dividends as a means to enhance stockholder value.

### NEW FINANCIAL ACCOUNTING STANDARDS ISSUED

Information on new financial accounting standards issued is included in Note L, "New Financial Accounting Standards Issued," in Part I, Item 1, Financial Statements.

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## HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART I - FINANCIAL INFORMATION

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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See Part II, Item 1A, "Risk Factors," for quantitative and qualitative disclosures about market risk.

### ITEM 4. CONTROLS AND PROCEDURES

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The Company's management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures as of March 31, 2007. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective. There have been no significant changes in internal controls over financial reporting that could materially affect, or are likely to materially affect, internal control over financial reporting during the first quarter of 2007.



HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS  
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Information on legal proceedings is included under Part I, Item 1, Note I labeled "Commitments and Contingencies."

ITEM 1A. RISK FACTORS  
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MARKET RISK.

In the normal course of business, the Company is routinely subjected to a variety of risks. In addition to the market risk associated with interest rate and currency movements on outstanding debt and non-U.S. dollar-denominated assets and liabilities, other examples of risk include collectibility of receivables, volatility of the financial markets and their effect on pension plans, and global economic and political conditions.

CYCLICAL INDUSTRY AND ECONOMIC CONDITIONS MAY ADVERSELY IMPACT THE COMPANY'S BUSINESSES.

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

- o The Company's Access Services business may be adversely impacted by slowdowns in non-residential construction and annual industrial and building maintenance cycles;
- o The Company's Mill Services business may be adversely impacted by slowdowns in steel mill production, excess capacity, consolidation or bankruptcy of steel producers or a reversal or slowing of current outsourcing trends in the steel industry;
- o The railway track maintenance services and equipment business may be adversely impacted by developments in the railroad industry that lead to lower capital spending or reduced maintenance spending;
- o The industrial abrasives and roofing granules business 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;
- o The industrial grating business may be adversely impacted by slowdowns in non-residential construction and industrial production;
- o The air-cooled heat exchangers business is affected by cyclical conditions present in the natural gas industry. A high demand for natural gas is currently creating increased demand for the Company's air-cooled heat exchangers. However, a slowdown in natural gas production could adversely affect this business; and
- o The Company's Gas Technologies business may be adversely impacted by reduced industrial production, and lower demand for industrial gases, slowdowns in demand for medical cylinders, valves, or lower demand for

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natural gas vehicles.

THE COMPANY'S DEFINED BENEFIT PENSION EXPENSE IS DIRECTLY AFFECTED BY THE EQUITY AND BOND MARKETS AND A DOWNWARD TREND IN THOSE MARKETS COULD ADVERSELY IMPACT THE COMPANY'S FUTURE EARNINGS. AN UPWARD TREND IN THE EQUITY AND BOND MARKETS COULD POSITIVELY AFFECT THE COMPANY'S FUTURE EARNINGS.

In addition to the economic issues that directly affect the Company's businesses, changes in the performance of equity and bond markets, particularly in the United Kingdom and the United States, impact actuarial assumptions used in determining annual pension expense, pension liabilities and the valuation of the assets in the Company's defined benefit pension plans. An upward trend in capital markets would likely result in a decrease in future unfunded obligations and pension expense. This could also result in an increase to Stockholders' Equity and a decrease in the Company's statutory funding requirements. If the financial markets deteriorate, it would most likely have a negative impact on the Company's pension expense and the accounting for pension assets and liabilities. This could result in a decrease to Stockholders' Equity and an increase in the Company's statutory funding requirements.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART II - OTHER INFORMATION

In response to the adverse market conditions, during 2002 and 2003 the Company conducted a comprehensive global review of its pension plans in order to formulate a plan to make its long-term pension costs more predictable and affordable. The Company implemented design changes for most of these plans during 2003. The principal change involved converting future pension benefits for many of the Company's non-union employees in both the U.K. and U.S. from defined benefit plans to defined contribution plans as of January 1, 2004. This conversion is expected to make the Company's pension expense more predictable and affordable and less sensitive to changes in the financial markets.

In addition to the Company's defined benefit pension plans, the Company also participates in numerous multi-employer pension plans throughout the world. Within the U.S., the Pension Protection Act of 2006 ("Act") may require additional funding for multiemployer plans that could cause the Company to be subject to higher cash contributions in the future. The effect, if any, of the Act is not determinable until further guidance becomes available. The Company continues to assess any full and partial withdrawal liability implications associated with these plans.

The Company's pension committee continues to evaluate alternative strategies to further reduce overall pension expense including the on-going evaluation of investment fund managers' performance; the balancing of plan assets and liabilities; the risk assessment of all multi-employer pension plans; the possible merger of certain plans; the consideration of incremental cash contributions to certain plans; and other changes that are likely to reduce future pension expense volatility and minimize risk.

Changes in the related pension benefit costs may occur in the future due to changes in the assumptions and due to changes in returns on plan assets resulting from financial market conditions. Using the expense calculated for calendar year 2007 and holding all other assumptions constant, a one-half percent increase or decrease in the discount rate and the expected long-term rate of return on plan assets would increase or decrease annual pre-tax defined benefit pension expense as follows:

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APPROXIMATE CHANGES IN PRE-TAX DEFINED BENEFIT PENSION EXPENSE

	PENSION EXPENSE	
	U.S. PLANS	U.K. PLANS
Discount rate		
-----		
One-half percent increase	Decrease of \$0.7 million	Decrease of \$4.3 million
One-half percent decrease	Increase of \$2.0 million	Increase of \$4.1 million
Expected long-term rate of return on plan assets		
-----		
One-half percent increase	Decrease of \$1.3 million	Decrease of \$3.7 million
One-half percent decrease	Increase of \$1.3 million	Increase of \$3.7 million

Should circumstances change that affect these estimates, changes (either increases or decreases) to the net pension obligations may be required and would be recorded in accordance with the provisions of SFAS 87 and SFAS 158. See Note 8, "Employee Benefit Plans" included in the Company's 2006 Form 10-K for more information on the impact of SFAS 158. Additionally, certain events could result in the pension obligation changing at a time other than the annual measurement date. This would occur when the benefit plan is amended or when plan curtailments occur under the provisions of SFAS 88.

THE COMPANY'S GLOBAL PRESENCE SUBJECTS IT TO A VARIETY OF RISKS ARISING FROM DOING BUSINESS INTERNATIONALLY.

The Company operates in 46 countries, including the United States. The Company's global footprint exposes it to a variety of risks that may adversely impact results of operations, cash flows or financial position. These include the following:

- o periodic economic downturns in the countries in which the Company does business;
- o fluctuations in currency exchange rates;
- o customs matters and changes in trade policy or tariff regulations;
- o imposition of or increases in currency exchange controls and hard currency shortages;

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART II - OTHER INFORMATION

- o changes in regulatory requirements in the countries in which the Company does business;
- o higher tax rates in certain jurisdictions and potentially adverse tax consequences including restrictions on repatriating earnings, adverse tax withholding requirements and "double taxation";
- o longer payment cycles and difficulty in collecting accounts receivable;

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- o complications in complying with a variety of international laws and regulations;
- o political, economic and social instability, civil unrest and armed hostilities in the countries in which the Company does business;
- o inflation rates in the countries in which the Company does business;
- o 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; and,
- o uncertainties arising from local business practices, cultural considerations and international political and trade tensions.

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

The Company has operations in several countries in the Middle East, including Bahrain, Egypt, Saudi Arabia, United Arab Emirates and Qatar, which are geographically close to Iraq, Iran, Israel, Lebanon and other countries with a continued high risk of armed hostilities. During the first quarter of 2007, 2006 and 2005, these countries contributed approximately \$9.3 million, \$9.5 million and \$7.4 million, respectively, to the Company's operating income. Additionally, the Company has operations in and sales to countries that have encountered outbreaks of communicable diseases (e.g., Acquired Immune Deficiency Syndrome (AIDS), avian influenza and others). Should these outbreaks worsen or spread to other countries, the Company may be negatively impacted through reduced sales to and within those countries and other countries impacted by such diseases.

### EXCHANGE RATE FLUCTUATIONS MAY ADVERSELY IMPACT THE COMPANY'S BUSINESS.

Fluctuations in foreign exchange rates between the U.S. dollar and the approximately 40 other currencies in which the Company conducts business may adversely impact the Company's operating income and income from continuing operations in any given fiscal period. Approximately 69% and 68% of the Company's sales and approximately 75% and 78% of the Company's operating income from continuing operations for the first quarter ended March 31, 2007 and 2006, respectively, were derived from operations outside the United States. More specifically, during the first quarter ended March 31, 2007 and 2006, approximately 21% and 23%, respectively, of the Company's revenues from continuing operations were derived from operations in the U.K. Additionally, approximately 26% and 23% of the Company's revenues from continuing operations were derived from operations with the euro as their functional currency during the three months ended March 31, 2007 and March 31, 2006, respectively. Given the structure of the Company's revenues and expenses, an increase in the value of the U.S. dollar relative to the foreign currencies in which the Company earns its revenues generally has a negative impact on operating income, whereas a decrease in the value of the U.S. dollar tends to have the opposite effect. The Company's principal foreign currency exposures are to the British pound sterling and the euro.

Compared with the corresponding period in 2006, the average values of major currencies changed as follows in relation to the U.S. dollar during the first quarter of 2007, impacting the Company's sales and income:

FOREIGN CURRENCY	THREE MONTHS ENDED MARCH 31
British pound sterling	Strengthened by 11%

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Euro	Strengthened by 9%
South African rand	Weakened by 18%
Brazilian real	Strengthened by 4%
Australian dollar	Strengthened by 7%

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART II - OTHER INFORMATION

Compared with exchange rates at December 31, 2006, the values of major currencies changed as follows as of March 31, 2007:

o British pound sterling	Strengthened by less than 1%
o Euro	Strengthened by 1%
o South African rand	Weakened by 4%
o Brazilian real	Strengthened by 5%
o Australian dollar	Strengthened by 2%

The Company's foreign currency exposures increase the risk of income statement, balance sheet and cash flow volatility. If the above currencies change materially in relation to the U.S. dollar, the Company's financial position, results of operations, or cash flows may be materially affected.

To illustrate the effect of foreign currency exchange rate changes in certain key markets of the Company, in the first quarter of 2007, revenues would have been approximately 4% or \$36.6 million lower, while operating income would have been approximately 3% or \$2.6 million lower if the average exchange rates for the first quarter of 2006 were utilized. A similar comparison for the first quarter of 2006 would have decreased revenues approximately 2% or \$16.3 million while operating income would have been approximately 0.4% or \$0.3 million less if the average exchange rates would have remained the same as the first quarter of 2005. If the U.S. dollar weakens in relation to the euro and British pound sterling, the Company would expect to see a positive impact on future sales and income from continuing operations as a result of foreign currency translation. Currency changes also result in assets and liabilities denominated in local currencies being translated into U.S. dollars at different amounts than at the prior period end.

The Company seeks to reduce exposures to foreign currency transaction fluctuations through the use of forward exchange contracts. At March 31, 2007, the notional amount of these contracts was \$157.1 million, and over 97% will mature in the second quarter of 2007. The Company does not hold or issue financial instruments for trading purposes, and it is the Company's policy to prohibit the use of derivatives for speculative purposes.

Although the Company engages in foreign currency forward exchange contracts and other hedging strategies to mitigate foreign exchange risk, hedging strategies may not be successful or may fail to offset the risk.

In addition, competitive conditions in the Company's manufacturing businesses may limit the Company's ability to increase product prices in the face of adverse currency movements. Sales of products manufactured in the United States for the domestic and export markets may be affected by the value of the U.S. dollar relative to other currencies. Any long-term strengthening of the U.S. dollar could depress demand for these products and reduce sales and may cause translation gains or losses due to the revaluation of accounts payable, accounts receivable and other asset and liability accounts. Conversely, any long-term weakening of the U.S. dollar could improve demand for these products and increase sales and may cause translation gains or losses due to the revaluation of accounts payable, accounts receivable and other asset and liability accounts.

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NEGATIVE ECONOMIC CONDITIONS MAY ADVERSELY IMPACT THE ABILITY OF THE COMPANY'S CUSTOMERS TO MEET THEIR OBLIGATIONS TO THE COMPANY ON A TIMELY BASIS AND IMPACT THE VALUATION OF THE COMPANY'S ASSETS.

If a downturn in the economy occurs, it may adversely impact the ability of the Company's customers to meet their obligations to the Company on a timely basis and could result in bankruptcy filings by them. If customers are unable to meet their obligations on a timely basis, 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 well as negatively affect the forecasts used in performing the Company's goodwill impairment testing under SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). If management determines that goodwill or assets are impaired or that inventories or receivables cannot be realized at recorded amounts, the Company will be required to record a write-down in the period of determination, which will reduce net income for that period. Additionally, the risk remains that certain Mill Services customers may file for bankruptcy protection, be acquired or consolidate in the future, which could have an adverse impact on the Company's income and cash flows. Conversely, such consolidation may provide additional service opportunities for the Company.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART II - OTHER INFORMATION

A NEGATIVE OUTCOME ON PERSONAL INJURY CLAIMS AGAINST THE COMPANY MAY ADVERSELY IMPACT RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

The Company has been named as one of many defendants (approximately 90 or more in most cases) in legal actions alleging personal injury from exposure to airborne asbestos. In their suits, the plaintiffs have named as defendants many manufacturers, distributors and repairers of numerous types of equipment or products that may contain asbestos. Most of these complaints contain a standard claim for damages of \$20 million or \$25 million against the named defendants. If the Company was found to be liable in any of these actions and the liability was to exceed the Company's insurance coverage, results of operations, cash flows and financial condition could be adversely affected. For more information concerning this litigation, see Note I, "Commitments and Contingencies," in Part 1, Item 1, Financial Statements.

THE COMPANY MAY LOSE CUSTOMERS OR BE REQUIRED TO REDUCE PRICES AS A RESULT OF COMPETITION.

The industries in which the Company operates are highly competitive.

- o The Company's Access Services business rents and sells equipment and provides erection and dismantling services to principally the non-residential and commercial construction and industrial plant maintenance markets. Contracts are awarded based upon the Company's engineering capabilities, product availability, safety record, and the ability to competitively price its rentals and services. If the Company is unable to consistently provide high-quality products and services at competitive prices, it may lose customers or operating margins may decline due to reduced selling prices.
- o The Company's Mill Services business is sustained mainly through contract renewals. Historically, the Company's contract renewal rate has averaged approximately 95%. If the Company is unable to renew its contracts at the historical rates or renewals are at reduced prices, revenue may decline.
- o The Company's manufacturing businesses compete with companies that

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manufacture similar products both internationally and domestically. Certain international competitors export their products into the United States and sell them at lower prices due to lower labor costs and government subsidies for exports. Such practices may limit the prices the Company can charge for its products and services. Additionally, unfavorable foreign exchange rates can adversely impact the Company's ability to match the prices charged by international competitors. If the Company is unable to match the prices charged by international competitors, it may lose customers.

The Company's strategy to overcome this competition includes continuous process improvement and cost reduction programs, international customer focus and the diversification, streamlining and consolidation of operations.

INCREASED CUSTOMER CONCENTRATION AND CREDIT RISK IN THE MILL SERVICES SEGMENT MAY ADVERSELY AFFECT THE COMPANY'S FUTURE EARNINGS AND CASH FLOWS.

In the Access Services Segment, concentrations of credit risk with respect to accounts receivable are generally limited due to the Company's large number of customers and their dispersion across different geographies. However, the Company's Mill Services Segment (and, to a lesser extent, the Minerals & Rail Technologies, Services and Products ("all other") Category) has several large customers throughout the world with significant accounts receivable balances. In December 2005, the Company acquired the Northern Hemisphere steel mill services operations of Brambles Industrial Services ("BISNH"), a unit of the Sydney, Australia-based Brambles Industrials Limited. This acquisition has increased the Company's corresponding concentration of credit risk to customers in the steel industry. Additionally, further consolidation in the global steel industry occurred in 2006 and additional consolidation is probable. Should additional transactions occur involving some of the steel industry's larger companies, which are customers of the Company, it would result in an increase in concentration of credit risk for the Company. If a large customer were to experience financial difficulty, or file for bankruptcy protection, it could adversely impact the Company's income, cash flows and asset valuations. As part of its credit risk management practices, the Company is developing strategies to mitigate this increased concentration of credit risk.

INCREASES IN ENERGY PRICES COULD INCREASE THE COMPANY'S OPERATING COSTS AND REDUCE ITS PROFITABILITY.

Worldwide political and economic conditions, an imbalance in the supply and demand for oil, extreme weather conditions, armed hostilities in oil-producing regions, among other factors, may result in an increase in the volatility of energy costs, both on a macro basis and for the Company specifically. In the first quarter of 2007 and 2006, energy-related costs have approximated 3.7% and 4.3% of the Company's revenue from continuing operations, respectively. To the extent that such costs cannot be passed to customers in the future, operating income and results of operations may be adversely affected.

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART II - OTHER INFORMATION

INCREASES OR DECREASES IN PURCHASE PRICES (OR SELLING PRICES) OR AVAILABILITY OF STEEL OR OTHER MATERIALS AND COMMODITIES MAY AFFECT THE COMPANY'S PROFITABILITY.

The profitability of the Company's manufactured products is affected by changing purchase prices of steel and other materials and commodities. Beginning in 2004, the price paid for steel and certain other commodities increased significantly

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compared with prior years. Although these costs moderated in 2005, such costs increased during 2006 and the first quarter of 2007 and the current outlook for the second quarter of 2007 indicates that certain of the cost increases may continue. If raw material costs associated with the Company's manufactured products continue to increase and the costs cannot be passed on to the Company's customers, operating income would be adversely affected. 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 and other high-value metal by-products to its customers. The selling price of the by-products material is market-based and varies based upon the current fair value of its components. Therefore, the revenue amounts recorded from the sale of such by-products material vary based upon the fair 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.

THE COMPANY IS SUBJECT TO VARIOUS ENVIRONMENTAL LAWS AND THE SUCCESS OF EXISTING OR FUTURE ENVIRONMENTAL CLAIMS AGAINST IT COULD ADVERSELY IMPACT THE COMPANY'S RESULTS OF OPERATIONS AND CASH FLOWS.

The Company's operations are subject to various federal, state, local and foreign laws, regulations and ordinances relating to the protection of health, safety and the environment, including those governing discharges to air and water, handling and disposal practices for solid and hazardous wastes, the remediation of contaminated sites and the maintenance of a safe work place. These laws impose penalties, fines and other sanctions for non-compliance and liability for response costs, property damages and personal injury resulting from past and current spills, disposals or other releases of, or exposure to, hazardous materials. The Company could incur substantial costs as a result of non-compliance with or liability for remediation or other costs or damages under these laws. The Company may be subject to more stringent environmental laws in the future, and compliance with more stringent environmental requirements may require the Company to make material expenditures or subject it to liabilities that the Company currently does not anticipate.

The Company is currently involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a "potentially responsible party" for certain waste disposal sites under the federal "Superfund" law. At several sites, the Company is currently conducting environmental remediation, and it is probable that the Company will agree to make payments toward funding certain other of these remediation activities. It also is possible that some of these matters will be decided unfavorably to the Company and that other sites requiring remediation will be identified. Each of these matters is subject to various uncertainties and financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Company has evaluated its potential liability and the Consolidated Balance Sheets for March 31, 2007 and December 31, 2006 include an accrual of \$4.2 million and \$3.8 million for environmental matters, respectively. The amounts charged against pre-tax earnings related to environmental matters totaled \$0.6 million and \$0.2 million for the first quarter ended March 31, 2007 and 2006, respectively. The liability for future remediation costs is evaluated on a quarterly basis. Actual costs to be incurred at identified sites in future periods may be greater than the estimates, given inherent uncertainties in evaluating environmental exposures.



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RESTRICTIONS IMPOSED BY THE COMPANY'S CREDIT FACILITIES AND OUTSTANDING NOTES MAY LIMIT THE COMPANY'S ABILITY TO OBTAIN ADDITIONAL FINANCING OR TO PURSUE BUSINESS OPPORTUNITIES.

The Company's credit facilities and certain notes payable agreements contain a covenant requiring a maximum debt to capital ratio of 60%. In addition, certain notes payable agreements also contain a covenant requiring a minimum net worth of \$475 million. These covenants limit the amount of debt the Company may incur, which could limit its ability to obtain additional financing or to pursue business opportunities. In addition, the Company's ability to comply with these ratios may be affected by events beyond its control. A breach of any of these covenants or the inability to comply with the required financial ratios could result in a default under these credit facilities. In the event of any default under these credit facilities, the lenders under those facilities could elect to declare all borrowings outstanding, together with accrued and unpaid interest and other fees, to be due and payable, which would cause an event of default under the notes. This

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART II - OTHER INFORMATION

could, in turn, trigger an event of default under the cross-default provisions of the Company's other outstanding indebtedness. At March 31, 2007, the Company was in compliance with a debt to capital ratio of 52.6% and a net worth of \$1.2 billion. The company had \$396.3 million in outstanding indebtedness containing these covenants at March 31, 2007.

HIGHER THAN EXPECTED CLAIMS UNDER INSURANCE POLICIES, UNDER WHICH THE COMPANY RETAINS A PORTION OF RISK, COULD ADVERSELY IMPACT RESULTS OF OPERATIONS AND CASH FLOWS.

The Company retains a significant portion of the risk for property, workers' compensation, U.K. employers' liability, automobile, general and product liability losses. Reserves have been recorded which reflect the undiscounted estimated liabilities for ultimate losses including claims incurred but not reported. Inherent in these estimates are assumptions that are based on the Company's history of claims and losses, a detailed analysis of existing claims with respect to potential value, and current legal and legislative trends. At March 31, 2007 and December 31, 2006, the Company had recorded liabilities of \$106.9 million and \$103.4 million, respectively, related to both asserted and unasserted insurance claims. Included in the balances at March 31, 2007 and December 31, 2006 were \$18.4 million and \$18.9 million, respectively, of recognized liabilities covered by insurance carriers. If actual claims are higher than those projected by management, an increase to the Company's insurance reserves may be required and would be recorded as a charge to income in the period the need for the change was determined. Conversely, if actual claims are lower than those projected by management, a decrease to the Company's insurance reserves may be required and would be recorded as a reduction to expense in the period the need for the change was determined.

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 in the third and fourth quarters (periods ending September 30 and December 31). This is a direct result of normally higher sales and 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

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seasonality on the business, its results of operations may suffer.

HISTORICAL REVENUE FROM CONTINUING OPERATIONS PATTERNS (IN MILLIONS)	2007	2006	2005	2004
First Quarter Ended March 31	\$ 840.0	\$ 682.1	\$ 558.0	\$ 478.7
Second Quarter Ended June 30	--	766.0	606.0	534.6
Third Quarter Ended September 30	--	773.3	599.5	532.9
Fourth Quarter Ended December 31	--	804.2	632.5	616.8
Totals	\$ --	\$3,025.6	\$2,396.0	\$2,163.0

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### HARSCO CORPORATION AND SUBSIDIARY COMPANIES PART II - OTHER INFORMATION

HISTORICAL CASH PROVIDED BY OPERATIONS (IN MILLIONS)	2007	2006	2005	2004
First Quarter Ended March 31	\$ 41.7	\$ 69.8	\$ 48.1	\$ 32.4
Second Quarter Ended June 30	--	114.5	86.3	64.6
Third Quarter Ended September 30	--	94.6	98.1	68.9
Fourth Quarter Ended December 31	--	130.3	82.7	104.6
Totals	\$ 41.7	\$ 409.2	\$ 315.3(a)	\$ 270.5

(a) Does not total due to rounding.

THE COMPANY'S CASH FLOWS AND EARNINGS ARE SUBJECT TO CHANGES IN INTEREST RATES.

The Company's total debt as of March 31, 2007 was \$1.33 billion. Of this amount, approximately 41.7% had fixed rates of interest and 58.3% had variable rates of interest. The weighted average interest rate of total debt was approximately 5.7%. At current debt levels, a one-percentage increase/decrease in variable interest rates would increase/decrease interest expense by approximately \$7.7 million per year.

The future financial impact on the Company associated with the above risks cannot be estimated.

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### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### (c). Issuer Purchases of Equity Securities

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAM
January 1, 2007 - January 31, 2007	--	--	--
February 1, 2007 - February 28, 2007	--	--	--
March 1, 2007 - March 31, 2007	--	--	--
Total	--	--	--

The Company's share repurchase program was extended by the Board of Directors in November 2006. The program authorizes the repurchase of up to 1,000,000 shares of the Company's common stock and expires January 31, 2008.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE BY SECURITY HOLDERS

At the annual meeting of stockholders held on April 24, 2007 in Camp Hill, Pennsylvania, the following proposals were voted upon by stockholders:

- o Stockholders elected all eleven current members of the Board of Directors to terms expiring in 2008 under the declassified Board structure approved at the 2005 annual meeting.

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### HARSCO CORPORATION AND 6 SUBSIDIARY COMPANIES PART II - OTHER INFORMATION

The Board of Directors voting tabulation was as follows:

Name	For No. of Shares	Withheld No. of Shares
G. D. H. Butler	34,628,928	3,518,572
K. G. Eddy	37,978,862	168,638
S. D. Fazzolari	33,369,816	4,777,684
D. C. Hathaway	34,697,815	3,449,685
J. J. Jasinowski	37,776,560	370,940
D. H. Pierce	37,794,731	352,769
C. F. Scanlan	37,953,923	193,577
J. I. Scheiner	35,028,053	3,119,447
A. J. Sordoni, III	33,559,934	4,587,566
J. P. Viviano	37,779,697	367,803
R. C. Wilburn	31,605,813	6,541,687

- o Stockholders approved the appointment of PricewaterhouseCoopers LLP as independent accountants to audit the financial statements of the Company for the fiscal year ending December 31, 2007 by the following

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vote:

For No. of Shares -----	Against No. of Shares -----	Abstentions No. of Shares -----
34,531,740	3,483,721	132,039

ITEM 5. OTHER INFORMATION  
-----

STOCK SPLIT  
-----

On January 23, 2007, the Company's Board of Directors approved a two-for-one stock split of the Company's Common Stock, par value \$1.25 per share (the "Common Stock"), to be effected in the form of a distribution of one additional share of the Company's Common Stock for each share that is issued and outstanding. The record date for the stock split was February 28, 2007 and the payment date was March 26, 2007. All historical share and per share data has been restated to reflect the two-for-one stock split.

DIVIDEND INFORMATION  
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On March 22, 2007, the Company's Board of Directors declared a quarterly cash dividend of \$0.1775 per share, on a post split basis, payable May 15, 2007, to stockholders of record as of April 13, 2007.

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HARSCO CORPORATION AND 6 SUBSIDIARY COMPANIES  
PART II - OTHER INFORMATION

ITEM 6. EXHIBITS  
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Listing of Exhibits filed with Form 10-Q:

Exhibit Number -----	Data Required -----	Location -----
31(a)	Certification Pursuant to Rule 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit
31(b)	Certification Pursuant to Rule 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit
32(a)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit

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32(b) Certification Pursuant to 18 U.S.C. Section 1350, Exhibit  
as Adopted Pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARSCO CORPORATION

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(Registrant)

DATE May 8, 2007

/S/ Salvatore D. Fazzolari

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Salvatore D. Fazzolari  
President, Chief Financial  
Officer and Treasurer

DATE May 8, 2007

/S/ Stephen J. Schnoor

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Stephen J. Schnoor  
Vice President and Controller

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