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HARSCO CORP  
Form 10-Q  
August 07, 2006

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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 June 30, 2006

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<br>-----                           | Outstanding at July 31, 2006<br>----- |
|--|---------------------------------------|
| Common stock, par value \$1.25 per share | 42,011,159                            |

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

#### ITEM 1. FINANCIAL STATEMENTS

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

| (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)                                       | THREE MONTHS ENDED<br>JUNE 30 |            |
|--|-------------------------------|------------|
|  | 2006                          | 2005       |
| <b>REVENUES FROM CONTINUING OPERATIONS:</b>                                    |                               |            |
| Service sales  | \$ 636,393                    | \$ 498,787 |
| Product sales  | 229,123                       | 197,360    |
| TOTAL REVENUES   | 865,516                       | 696,147    |
| <b>COSTS AND EXPENSES FROM CONTINUING OPERATIONS:</b>                          |                               |            |
| Cost of services sold  | 457,133                       | 367,401    |
| Cost of products sold  | 184,430                       | 158,914    |
| Selling, general and administrative expenses                                   | 123,914                       | 95,212     |
| Research and development expenses  | 719                           | 711        |
| Other (income) expenses  | 1,679                         | (593)      |
| TOTAL COSTS AND EXPENSES   | 767,875                       | 621,645    |
| OPERATING INCOME FROM CONTINUING OPERATIONS                                    | 97,641                        | 74,502     |
| Equity in income of unconsolidated entities, net                               | 102                           | 42         |
| Interest income  | 918                           | 567        |
| Interest expense   | (14,617)                      | (10,419)   |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME<br>TAXES AND MINORITY INTEREST | 84,044                        | 64,692     |
| Income tax expense   | (27,908)                      | (20,647)   |
| INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST                     | 56,136                        | 44,045     |
| Minority interest in net income  | (2,078)                       | (2,232)    |
| INCOME FROM CONTINUING OPERATIONS  | 54,058                        | 41,813     |

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|  |               |    |        |
|--|---------------|----|--------|
| DISCONTINUED OPERATIONS:                               |               |    |        |
| Loss from operations of discontinued business          | (290)         |    | (316)  |
| Gain on disposal of discontinued business              | --            |    | 204    |
| Income/(loss) related to discontinued defense business | (6)           |    | (6)    |
| Income tax expense                                     | 112           |    | 44     |
| -----  |               |    |        |
| LOSS FROM DISCONTINUED OPERATIONS                      | (184)         |    | (74)   |
| -----  |               |    |        |
| NET INCOME   | \$ 53,873 (A) | \$ | 41,739 |
| =====  |               |    |        |
| Average shares of common stock outstanding             | 41,961        |    | 41,612 |
| Basic earnings per common share:                       |               |    |        |
| Continuing operations                                  | \$ 1.29       | \$ | 1.00   |
| Discontinued operations                                | --            |    | --     |
| -----  |               |    |        |
| BASIC EARNINGS PER COMMON SHARE                        | \$ 1.28 (A)   | \$ | 1.00   |
| =====  |               |    |        |
| Diluted average shares of common stock outstanding     | 42,222        |    | 42,046 |
| Diluted earnings per common share:                     |               |    |        |
| Continuing operations                                  | \$ 1.28       | \$ | 0.99   |
| Discontinued operations                                | --            |    | --     |
| -----  |               |    |        |
| DILUTED EARNINGS PER COMMON SHARE                      | \$ 1.28       | \$ | 0.99   |
| =====  |               |    |        |
| CASH DIVIDENDS DECLARED PER COMMON SHARE               | \$ 0.325      | \$ | 0.30   |
| =====  |               |    |        |

(a) 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, net  
Other current assets

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|  |
|--|
| Assets held-for-sale                       |
| -----                                      |
| TOTAL CURRENT ASSETS                       |
| =====                                      |
| Property, plant and equipment, net         |
| Goodwill, net                              |
| Intangible assets, net                     |
| Other assets                               |
| -----                                      |
| TOTAL ASSETS                               |
| =====                                      |
| 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                  |
| -----                                      |
| TOTAL CURRENT LIABILITIES                  |
| =====                                      |
| Long-term debt                             |
| Deferred income taxes                      |
| Insurance liabilities                      |
| Retirement plan liabilities                |
| Other liabilities                          |
| -----                                      |
| TOTAL LIABILITIES                          |
| =====                                      |
| COMMITMENTS AND CONTINGENCIES              |
| STOCKHOLDERS' EQUITY                       |
| Common stock                               |
| Additional paid-in capital                 |
| Accumulated other comprehensive loss       |
| Retained earnings                          |
| Treasury stock                             |
| -----                                      |
| TOTAL STOCKHOLDERS' EQUITY                 |
| =====                                      |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY |
| =====                                      |

(a) Reclassified for comparative purposes.

See accompanying notes to unaudited condensed consolidated financial statements.

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(IN THOUSANDS)

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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 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 (including reclassifications to/from long-term debt)  
Current maturities and long-term debt:  
    Additions  
    Reductions (including reclassifications to/from short-term borrowings)  
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

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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 gains (losses) on cash flow hedging instruments, net of deferred income taxes of (\$17) and \$44 in 2006 and 2005, respectively

Pension liability adjustments, net of deferred income taxes of \$2,597 and (\$2,406) in 2006 and 2005, respectively

Reclassification adjustment for gain on cash flow hedging instruments included in net income, net of deferred income taxes of \$0 and \$1 in 2006 and 2005, respectively

-----  
Other comprehensive income (loss)  
-----

TOTAL COMPREHENSIVE INCOME  
=====

(IN THOUSANDS)

=====  
Net income  
-----

Other comprehensive income (loss):

Foreign currency translation adjustments

Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of (\$11) and \$44 in 2006 and 2005, respectively

Pension liability adjustments, net of deferred income taxes of \$3,265 and (\$3,638) in 2006 and 2005, respectively

Marketable securities, unrealized gain, net of deferred income taxes of \$1 and \$0 in 2006 and 2005, respectively

Reclassification adjustment for (gain) loss on cash flow hedging instruments included in net income, net of deferred income taxes of (\$1) and \$1 in 2006 and 2005, respectively

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-----  
Other comprehensive income (loss)  
-----

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 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 2005 audited financial statements, but does not include all disclosures required by accounting principals generally accepted in the United States of America. The unaudited interim information contained herein should also be read in conjunction with the Company's 2005 Form 10-K filing.

B. RECLASSIFICATIONS

Certain reclassifications have been made to prior years' amounts to conform with current year classifications. These reclassifications are not material and relate principally to components of the Consolidated Balance Sheets. As a result of these reclassifications, certain 2005 amounts presented for comparative purposes will not individually agree with previously filed Forms 10-K or 10-Q.

C. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payments" (SFAS 123R), which replaced SFAS No. 123, "Accounting for Stock-Based Compensation," and superseded Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). SFAS 123R requires the cost of employee services received in exchange for an award of equity instruments to be based upon the grant-date fair value of the award (with limited exceptions). Additionally, this cost is to be recognized as expense over the period during which an employee is required to provide services in exchange for the award (usually the vesting period). SFAS 123R also requires that the additional tax benefits the Company receives from stock-based compensation be recorded as cash inflows from financing activities in the statement of cash flows. Prior to January 1, 2006, the Company applied the provisions of APB 25 in accounting for awards made under the Company's stock-based compensation plans.

The Company adopted the provisions of SFAS 123R using the modified-prospective transition method. Under this method, results from prior periods have not been restated. During 2003, the Company ceased granting stock options to employees and non-employee directors. As such, the effect of adopting SFAS 123R was not material to the Company's income from continuing operations, net income or cash flows from operating and financing activities for the six months ended June 30, 2006, and the cumulative effect of adoption using the modified-prospective

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transition method was not material.

The Company currently grants performance-based restricted stock units as the long-term equity component of compensation for non-employee directors, officers and certain key employees. The restricted stock units require no payment from the recipient and compensation cost is measured based on the market price on the grant date and is recorded over the vesting period. The vesting period for restricted stock units granted to non-employee directors is one year; and each restricted stock unit will be exchanged for a like number of shares of Company stock following the termination of the participant's service as a director. The vesting period for restricted stock units granted to officers and certain key employees is three years, and upon vesting each restricted stock unit will be exchanged for a like number of shares of the Company stock. Restricted stock units do not have an option for cash payment.

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

The following table summarizes restricted stock units issued and the compensation expense recorded for the three months and six months ended June 30, 2006 and 2005:

|                   | RESTRICTED<br>STOCK UNITS | FAIR VALUE<br>PER UNIT | STOCK-BASED COMPENSATION EXPENSE                |               |   |             |
|-------------------|---------------------------|------------------------|---|---------------|---|-------------|
|                   |                           |                        | THREE MONTHS ENDED<br>JUNE 30<br>(IN THOUSANDS) |               | SIX MONTHS ENDED<br>JUNE 30<br>(IN THOUSANDS) |             |
|                   |                           |                        | 2006  | 2005          | 2006  | 2005        |
| <b>Directors:</b> |                           |                        |   |               |   |             |
| May 1, 2004       | 3,500                     | \$ 43.42               | \$ --   | \$ 13         | \$ -  | \$ -        |
| May 1, 2005       | 6,000                     | 53.75                  | 27  | 54            | 108   | -           |
| May 1, 2006       | 8,000                     | 82.59                  | 110   | -             | 110   | -           |
| <b>Employees:</b> |                           |                        |   |               |   |             |
| January 24, 2005  | 32,700                    | 50.41                  | 120   | 156           | 236   | -           |
| January 24, 2006  | 46,550                    | 67.70                  | 243   | -             | 442   | -           |
| <b>Total</b>      | <b>96,750</b>             |                        | <b>\$ 500</b>                                   | <b>\$ 223</b> | <b>\$ 896</b>                                 | <b>\$ -</b> |

Restricted stock unit activity for the six months ended June 30, 2006 was as follows:

|                              | RESTRICTED<br>STOCK UNITS | WEIGHTED AVERAGE<br>GRANT-DATE FAIR VALUE |
|------------------------------|---------------------------|---|
| Nonvested at January 1, 2006 | 31,750                    | \$ 50.62                                  |
| Granted                      | 54,550                    | 69.88                                     |
| Vested                       | (3,833)                   | 63.34                                     |



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|                            |         |          |
|----------------------------|---------|----------|
| Forfeited                  | (3,250) | 63.71    |
| -----                      |         |          |
| Nonvested at June 30, 2006 | 79,217  | \$ 62.73 |
| =====                      |         |          |

As of June 30, 2006, the total unrecognized compensation costs related to nonvested restricted stock units was \$3.8 million which is expected to be recognized over a weighted-average period of approximately 2.1 years.

The following table summarizes the excess tax benefits, resulting principally from stock options:

| (IN MILLIONS)       | THREE MONTHS ENDED<br>JUNE 30 |        | SIX MONTHS ENDED<br>JUNE 30 |        |
|---------------------|-------------------------------|--------|-----------------------------|--------|
|                     | 2006                          | 2005   | 2006                        | 2005   |
| Excess tax benefits | \$ 1.3                        | \$ 0.6 | \$ 3.3                      | \$ 2.0 |

No stock options have been granted to officers and employees since February 2002. No stock options have been granted to non-employee directors since May 2003. Prior to these dates, the Company had granted stock options for the purchase of its common stock to officers, certain key employees and non-employee directors under two stockholder-approved plans. The exercise price of the stock options was the fair value on the grant date, which was the date the Board of Directors approved the respective grants. The 1995 Executive Incentive Compensation Plan authorizes the issuance of up to 4,000,000 shares of the Company's common stock for use in paying incentive compensation awards in the form of stock options or other equity awards such as restricted stock, restricted stock units or stock appreciation rights. The 1995 Non-Employee Directors' Stock Plan authorizes the issuance of up to 300,000 shares of the Company's common stock for equity awards.

When the Company issued stock options, they were granted at fair market value on the date of grant, which was the date the Board of Directors approved the respective grants. Options issued in 2002 under the 1995 Executive Incentive Compensation Plan generally vested and became exercisable two years following the date of grant. Options issued prior to 2002 under the 1995 Non-Employee Directors' Stock Plan became exercisable one year following the date of grant but

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

vested immediately. The options under both Plans expire ten years from the date of grant. At June 30, 2006, there were 1,239,631 and 148,500 shares available for granting equity awards under the 1995 Executive Incentive Compensation Plan and the 1995 Non-Employee Directors' Stock Plan, respectively. Generally, new shares are issued for exercised stock options and treasury shares are issued for vested restricted stock units.

Stock option activity for the six months ended June 30, 2006 was as follows:

| STOCK OPTIONS |                  |               |
|---------------|------------------|---------------|
| SHARES        | WEIGHTED AVERAGE | AGGREGATE INT |
| -----         |                  |               |

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|                                | UNDER OPTION | EXERCISE PRICE | VALUE (IN MILL) |
|--------------------------------|--------------|----------------|-----------------|
| Outstanding, December 31, 2005 | 749,025 (a)  | \$31.93        | \$26.9          |
| Exercised                      | (215,763)    | 34.08          | --              |
| -----                          |              |                |                 |
| OUTSTANDING, JUNE 30, 2006     | 533,262 (a)  | \$31.06        | \$24.7          |
| =====                          |              |                |                 |

(a) Included in options outstanding at June 30, 2006 and December 31, 2005 were 681 options granted to SGB key employees as part of the Company's acquisition of SGB in 2000. These options are not a part of the 1995 Executive Compensation Plan, or the 1995 Non-Employee Directors' Stock Plan.

(b) Intrinsic value is defined as the difference between the current market value and the exercise price.

The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005 was \$10.0 million and \$5.8 million, respectively.

Options to purchase 533,262 shares were exercisable at June 30, 2006. The following table summarizes information concerning outstanding and exercisable options at June 30, 2006.

| STOCK OPTIONS OUTSTANDING AND EXERCISABLE |                                    |                                     |                                 |
|---|------------------------------------|-------------------------------------|---------------------------------|
| RANGE OF EXERCISABLE PRICES               | NUMBER OUTSTANDING AND EXERCISABLE | REMAINING CONTRACTUAL LIFE IN YEARS | WEIGHTED AVERAGE EXERCISE PRICE |
| \$25.63 - \$29.00                         | 217,108                            | 3.78                                | \$27.46                         |
| 29.31 - 32.65                             | 247,869                            | 5.50                                | 32.54                           |
| 32.81 - 46.16                             | 68,285                             | 4.01                                | 37.18                           |
| -----                                     |                                    |                                     |                                 |
|   | 533,262                            |                                     |                                 |
| =====                                     |                                    |                                     |                                 |

D. REVIEW OF OPERATIONS BY SEGMENT

| (IN THOUSANDS)  | THREE MONTHS ENDED<br>JUNE 30, 2006 |                         |
|---|-------------------------------------|-------------------------|
|   | SALES                               | OPERATING INCOME (LOSS) |
| Mill Services Segment                                   | \$ 344,295                          | \$ 38,529               |
| Access Services Segment                                 | 269,660                             | 36,652                  |
| Gas Technologies Segment                                | 99,494                              | 1,223                   |
| -----   |                                     |                         |
| Segment Totals  | 713,449                             | 76,404                  |
| Engineered Products and Services ("all other") Category | 152,067                             | 22,001                  |
| General Corporate                                       | -                                   | (764)                   |
| -----   |                                     |                         |

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Consolidated Totals \$ 865,516 \$ 97,641

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

| (IN THOUSANDS)  | SIX MONTHS ENDED<br>JUNE 30, 2006 |                               |
|---|-----------------------------------|-------------------------------|
|   | SALES                             | OPERATING<br>INCOME<br>(LOSS) |
| Mill Services Segment                                   | \$ 670,530                        | \$ 72,109                     |
| Access Services Segment                                 | 495,454                           | 53,435                        |
| Gas Technologies Segment                                | 186,982                           | 3,550                         |
| Segment Totals  | 1,352,966                         | 129,094                       |
| Engineered Products and Services ("all other") Category | 282,103                           | 37,439                        |
| General Corporate                                       | --                                | (1,515)                       |
| Consolidated Totals                                     | \$ 1,635,069                      | \$ 165,018                    |

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

| (IN THOUSANDS)   | THREE MONTHS ENDED<br>JUNE 30 |           |
|--|-------------------------------|-----------|
|  | 2006                          | 2005      |
| Segment Operating Income                                 | \$ 76,404                     | \$ 58,287 |
| Engineered Products & Services<br>("all other") Category | 22,001                        | 18,280    |
| General Corporate  | (764)                         | (2,065)   |
| Operating income from continuing operations              | 97,641                        | 74,502    |
| Equity in income of unconsolidated entities, net         | 102                           | 42        |
| Interest income  | 918                           | 567       |
| Interest expense   | (14,617)                      | (10,419)  |

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|   |           |           |
|---|-----------|-----------|
| Income from continuing operations before income taxes and minority interest | \$ 84,044 | \$ 64,692 |
|---|-----------|-----------|

### E. ACCOUNTS RECEIVABLE AND INVENTORIES

At June 30, 2006 and December 31, 2005, accounts receivable of \$706.4 million and \$666.3 million, respectively, were net of an allowance for doubtful accounts of \$24.4 million and \$24.4 million, respectively. Gross accounts receivable included trade accounts receivable of \$692.1 million and \$638.5 million at June 30, 2006 and December 31, 2005, respectively. Also, included in gross receivables were \$19.5 million and \$25.2 million of insurance claim receivables at June 30, 2006 and December 31, 2005, respectively. These insurance claim receivables were fully offset by current insurance liabilities at June 30, 2006 and December 31, 2005. The provision for doubtful accounts was \$2.2 million and \$1.8 million for the three months ended June 30, 2006 and 2005, respectively.

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

Inventories consist of the following:

| (IN THOUSANDS)                    | INVENTORIES     |                     |
|-----------------------------------|-----------------|---------------------|
|                                   | JUNE 30<br>2006 | DECEMBER 31<br>2005 |
| Finished goods                    | \$ 99,786       | \$ 85,325           |
| Work-in-process                   | 41,580          | 43,830              |
| Raw materials and purchased parts | 92,740          | 87,251              |
| Stores and supplies               | 35,776          | 34,674              |
| Total Inventories                 | \$ 269,882      | \$ 251,080          |

Inventories increased \$18.8 million from December 31, 2005 due to the following factors:

- o Increased raw materials, finished goods and work-in-process inventories in the Gas Technologies Segment due to higher material costs and to meet expected customer demand in 2006.
- o Increased finished goods and raw materials in the Engineered Products and Services Category due to higher material costs and to meet expected customer demand in 2006.
- o Increased finished goods in the international Access Services business to meet expected customer demand in 2006.

### F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

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| (IN THOUSANDS)                      | JUNE 30<br>2006 | DECEMBER 31<br>2005 |
|-------------------------------------|-----------------|---------------------|
| Land and improvements               | \$ 40,470       | \$ 39,306           |
| Buildings and improvements          | 177,097         | 168,727             |
| Machinery and equipment             | 2,451,441       | 2,291,294           |
| Uncompleted construction            | 86,444          | 91,186              |
| Gross property, plant and equipment | 2,755,452       | 2,590,513           |
| Less accumulated depreciation       | (1,530,569)     | (1,450,705)         |
| Net property, plant and equipment   | \$ 1,224,883    | \$ 1,139,808        |

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

G. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table reflects the changes in carrying amounts of goodwill for the six months ended June 30, 2006:

GOODWILL BY SEGMENT

| (IN THOUSANDS)   | MILL<br>SERVICES<br>SEGMENT | ACCESS<br>SERVICES<br>SEGMENT | GA<br>TECHNOLOGICAL<br>SEGMENT |
|--|-----------------------------|-------------------------------|--------------------------------|
| Balance as of December 31, 2005, net of accumulated amortization | \$ 297,219                  | \$ 217,580                    | \$ 36,200                      |
| Changes to Goodwill (a)  | (487)                       | (2,063)                       | --                             |
| Other (b)  | --                          | (3,286)                       | --                             |
| Foreign currency translation                                     | 11,603                      | 12,961                        | --                             |
| BALANCE AS OF JUNE 30, 2006, NET OF ACCUMULATED AMORTIZATION     | \$ 308,335                  | \$ 225,192                    | \$ 36,200                      |

(a) Relate principally to opening balance sheet adjustments for the BISNH and

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Hunnebeck acquisitions.

- (b) Reduction of valuation allowance related to realization of tax loss carryback.

Goodwill is net of accumulated amortization of \$106.6 million and \$103.0 million at June 30, 2006 and December 31, 2005, respectively.

The following table reflects intangible assets by major category:

### INTANGIBLE ASSETS

| (IN THOUSANDS)         | JUNE 30, 2006               |                             | DECEMBER 31,       |                             |
|------------------------|-----------------------------|-----------------------------|--------------------|-----------------------------|
|                        | GROSS<br>CARRYING<br>AMOUNT | ACCUMULATED<br>AMORTIZATION | CARRYING<br>AMOUNT | ACCUMULATED<br>AMORTIZATION |
| Customer Relationships | \$ 77,297                   | \$ 3,972                    | \$ 73,224          | \$ 3,972                    |
| Non-compete agreements | 5,343                       | 4,591                       | 5,036              | 4,591                       |
| Patents                | 4,558                       | 3,781                       | 4,426              | 3,781                       |
| Other                  | 8,339                       | 3,067                       | 7,962              | 3,067                       |
| <b>Total</b>           | <b>\$ 95,537</b>            | <b>\$ 15,411</b>            | <b>\$ 90,648</b>   | <b>\$ 15,411</b>            |

During the first six months of 2006, the Company acquired the following intangible assets (by major class) which are subject to amortization:

### ACQUIRED INTANGIBLE ASSETS

| (IN THOUSANDS)         | GROSS<br>CARRYING<br>AMOUNT | RESIDUAL<br>VALUE | WEIGHTED-AVERAGE<br>AMORTIZATION PERIOD |
|------------------------|-----------------------------|-------------------|---|
| Customer relationships | \$ 309                      | None              | 5 years                                 |
| Non-compete agreements | 300                         | None              | 5 years                                 |
| Other                  | 50                          | None              | 5 years                                 |
| <b>Total</b>           | <b>\$ 659</b>               |                   |   |

The above acquisitions were partially offset by the sale of an intangible asset in the Mill Services Segment.

There were no research and development assets acquired and written off in the

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first six months of 2006 or 2005.

Amortization expense for intangible assets was \$3.4 million and \$1.0 million for the six months ended June 30, 2006 and 2005, respectively. The following table shows the estimated amortization expense for the next five fiscal years based on current intangible assets:

| (IN THOUSANDS)                    | 2006    | 2007    | 2008    | 2009    | 2010    |
|-----------------------------------|---------|---------|---------|---------|---------|
| Estimated Amortization Expense(a) | \$6,400 | \$6,200 | \$5,900 | \$5,600 | \$5,400 |

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

### H. ACQUISITIONS AND DISPOSITIONS

#### ACQUISITIONS

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 Industrial Limited, for (pound)136 million (approximately \$234 million), excluding acquisition costs. BISNH is included in the Company's Mill Services Segment. The Company did not assume debt as part of this acquisition. BISNH is a provider of on-site, outsourced mill services to the steel and metals industries, operating at 19 locations in the U.K., France, Holland and the United States. Goodwill recognized in this transaction (based on foreign exchange rates at the transaction date) was \$92.6 million, of which \$88.1 million is expected to be deductible for U. S. income tax purposes. Because this acquisition occurred near the end of 2005, the purchase price allocations and goodwill balance have not been finalized as of June 30, 2006.

In November 2005, the Company acquired the Germany-based Hunnebeck Group GmbH (Hunnebeck) for (euro)140 million (approximately \$164 million), which included the assumption of debt but excludes acquisition costs. Hunnebeck is included in the Company's Access Services Segment. Hunnebeck is a provider of highly engineered formwork and scaffolding equipment with more than 60 branches and depots in 12 countries and export sales worldwide. Goodwill recognized in this transaction (based on foreign exchange rates at the transaction date) was \$69.1 million, none of which is expected to be deductible for U. S. income tax purposes. Because this acquisition occurred near the end of 2005, the purchase price allocations and goodwill balance have not been finalized as of June 30, 2006.

In July 2006, the Company acquired the assets of UK-based Cape PLC's Cleton industrial maintenance services subsidiaries in Holland, Belgium and Germany (Cleton). The terms of the transaction provide for an initial cash payment to Cape PLC of (euro)8.175 million (approximately \$10.3 million), which represents a small premium to the net assets purchased, and is subject to adjustment for final accounts up to a maximum of (euro)8.85 million (approximately \$11.2 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 will be included in the SGB Division of the Access Services Segment.

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

Throughout the past several years, management approved the sale of certain long-lived assets (primarily land and buildings) of the Gas Technologies Segment, the Mill Services Segment and the Engineered Products and Services Category. The major classes of assets "held-for-sale" included in the

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Consolidated Balance Sheets are as follows:

| (IN THOUSANDS)                     | ASSETS "HELD-FOR-SALE" |                     |
|------------------------------------|------------------------|---------------------|
|                                    | JUNE 30<br>2006        | DECEMBER 31<br>2005 |
| ASSETS                             |                        |                     |
| Property, plant and equipment, net | \$ 2,815               | \$ 2,326            |
| TOTAL ASSETS "HELD-FOR-SALE"       | \$ 2,815               | \$ 2,326            |

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

#### 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 June 30, 2006 and December 31, 2005 include accruals of \$3.1 million and \$2.8 million, respectively, for environmental matters. The amounts charged against pre-tax income related to environmental matters totaled \$0.5 million for the first six months of 2006 and 2005.

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 June 30, 2006, the maximum assessment from the CRA for the period 1994-1998 is approximately \$10.7 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 June 30, 2006, the maximum assessment from Ontario is approximately \$3.4 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



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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 June 30, 2006 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, or one-half of the disputed amount. 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.

### 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 either New York or Mississippi. 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's alleged medical condition, and without specifically identifying any Company product as the source of plaintiff's asbestos exposure. With respect to the Mississippi complaints, most

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

contain a standard claim for an unstated amount of damages against the numerous defendants (typically 240 to 270), without specifically identifying any Company product as the source of plaintiff's alleged asbestos exposure.

As of June 30, 2006, there are 26,712 pending asbestos personal injury claims filed against the Company. Of these cases, 26,265 were pending in the New York Supreme Court for New York County in New York State and 97 of the cases were pending in state courts of various counties in Mississippi. The other claims, totaling approximately 350, are filed in various counties in a number of state courts, and in certain Federal District Courts (including New York), and those complaints assert lesser amounts of damages than the New York State court cases or do not state any amount claimed.

As of June 30, 2006, the Company has obtained dismissal by stipulation, or

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summary judgment prior to trial, in 16,772 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 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 (a trial 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 of 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 June 30, 2006, the Company has been listed as a defendant in 216 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 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.

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, 2005 for additional information on Accrued Insurance and Loss Reserves.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

J. RECONCILIATION OF BASIC AND DILUTED SHARES

| (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)  | THREE MONTHS EN |           |
|--|-----------------|-----------|
|  | JUNE 30         | 2005      |
| Income from continuing operations  | \$ 54,058       | \$ 41,961 |
| Average shares of common stock outstanding used to compute basic earnings per common share | 41,961          | 42,222    |
| Dilutive effect of stock-based compensation  | 261             |           |
| Shares used to compute dilutive effect of stock-based compensation                         | 42,222          |           |
| Basic earnings per common share from continuing operations                                 | \$ 1.29         | \$ 1.28   |
| Diluted earnings per common share from continuing operations                               | \$ 1.28         | \$ 1.28   |

All outstanding stock options and restricted stock units were included in the computation of diluted earnings per share at June 30, 2006 and 2005.

K. EMPLOYEE BENEFIT PLANS

| DEFINED BENEFIT PENSION EXPENSE (INCOME)     | U. S. PLANS |          |
|--|-------------|----------|
|  | 2006        | 2005     |
| (IN THOUSANDS)                               |             |          |
| Defined benefit plans:                       |             |          |
| Service cost                                 | \$ 922      | \$ 3,730 |
| Interest cost                                | 3,730       | (4,985)  |
| Expected return on plan assets               | (4,985)     | 185      |
| Recognized prior service costs               | 185         | 737      |
| Recognized losses                            | 737         | (91)     |
| Amortization of transition liability (asset) | (91)        | 78       |
| Curtailment/settlement loss (gain)           | 78          |          |
| Defined benefit plans pension expense        | \$ 576      | \$ 576   |

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| DEFINED BENEFIT PENSION EXPENSE (INCOME)     | U. S. PLANS |          |
|--|-------------|----------|
| (IN THOUSANDS)                               | 2006        | 2005     |
| Defined benefit plans:                       |             |          |
| Service cost                                 | \$ 1,843    | \$ 1,843 |
| Interest cost                                | 7,460       | 7,460    |
| Expected return on plan assets               | (9,971)     | (9,971)  |
| Recognized prior service costs               | 371         | 371      |
| Recognized losses                            | 1,474       | 1,474    |
| Amortization of transition liability (asset) | (181)       | (181)    |
| Curtailment/settlement loss (gain)           | 78          | 78       |
| Defined benefit plans pension expense        | \$ 1,074    | \$ 1,074 |

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
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Defined benefit pension expense in the second quarter of 2006 was slightly higher than the comparable 2005 period due to increased pension expense for certain settlement and curtailment losses which were mostly offset by the increase in the expected return on pension plan assets. For the first half of 2006, the defined benefit pension expense decreased \$0.6 million from the comparable 2005 period. This decrease relates primarily to an increase in the expected return on plan assets resulting from an increased fair value of plan assets as of December 31, 2005. The increased fair value of plan assets as of December 31, 2005 resulted from 2005 actual return on plan assets of 15.6% (based on beginning of the year fair value of plan assets) as well as Company cash contributions of \$48.8 million, including \$16.9 million of voluntary contributions. The global weighted average expected long-term rate of return on plan assets was decreased to 7.6% for 2006 compared with 7.8% for 2005, for reasons disclosed in the 2005 Form 10-K.

Contributions to defined benefit pension plans are as follows:

| DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS |             |                     |
|--|-------------|---------------------|
| (IN MILLIONS)                              | U. S. PLANS | INTERNATIONAL PLANS |
| First Quarter 2006                         | \$ 0.2      | \$ 4.7              |
| Second Quarter 2006                        | 0.3         | 5.8                 |
| Six Months 2006                            | 0.5         | 10.5                |
| Projected July - December 2006             | 0.5         | 9.5                 |
| Total Projected Year 2006                  | \$ 1.0      | \$ 20.0             |

Contributions to multiemployer pension plans during the second quarter and six months ended June 30, 2006 were \$4.8 million and \$8.7 million, respectively. Contributions for defined contribution pension plans during the second quarter and six months ended June 30, 2006 were \$3.4 million and \$8.4 million, respectively.

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| POSTRETIREMENT BENEFITS EXPENSE (INCOME) | THREE MONTHS ENDED |       |
|--|--------------------|-------|
|  | JUNE 30            |       |
| (IN THOUSANDS)                           | 2006               | 2005  |
| Service cost                             | \$ 2               | \$ 1  |
| Interest cost                            | 46                 | 48    |
| Recognized prior service costs           | --                 | 1     |
| Recognized gains                         | (9)                | (9)   |
| Postretirement benefits expense          | \$ 39              | \$ 41 |

| POSTRETIREMENT BENEFITS EXPENSE (INCOME) | SIX MONTHS ENDED |          |
|--|------------------|----------|
|  | JUNE 30          |          |
| (IN THOUSANDS)                           | 2006             | 2005     |
| Service cost                             | \$ 3             | \$ 4     |
| Interest cost                            | 93               | 103      |
| Recognized prior service costs           | 1                | 6        |
| Recognized gains                         | (19)             | (18)     |
| Curtailement gains                       | -                | (318)    |
| Postretirement benefits expense (income) | \$ 78            | \$ (223) |

The curtailment gains of \$0.3 million for 2005 were due to the termination of certain postretirement health care plans.

In the quarter ended June 30, 2006, the Company contributed \$66 thousand to the postretirement plans. For the six months ended June 30, 2006, the Company contributed \$139 thousand to the postretirement plans and anticipates contributing approximately \$186 thousand during the remainder of 2006.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

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

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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 expects to adopt SFAS 155 effective January 1, 2007, and has determined that it is not likely to materially impact the Company's financial position, results of operations or cash flows.

SFAS No. 156, "Accounting for Servicing of Financial Assets, an Amendment of  
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FASB Statement 140" (SFAS 156)  
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In March 2006, the FASB issued SFAS 156, which amends SFAS No. 140, "Accounting of 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 expects to adopt SFAS 156 effective January 1, 2007, and has determined that it is not likely to materially impact the Company's financial position, results of operations or cash flows.

FASB Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes-an  
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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. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company will adopt this interpretation in the first quarter of 2007. The Company is currently evaluating the requirements of FIN 48 and has not yet determined the impact on the consolidated financial statements.

Proposed Statement of Financial Accounting Standards, "Employer's Accounting for  
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Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB  
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Statements No. 87, 88, 106, and 132(R)," (the "Exposure Draft")  
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The FASB is currently reconsidering the accounting for pensions and other postretirement benefits in a two-phase project. Phase I of this project primarily addresses the balance sheet recognition of a plan's overfunded or underfunded status. Phase II will be a comprehensive reconsideration of all elements of pension accounting, and is expected to take several years to complete once Phase I is complete. As part of Phase I, the FASB issued the Exposure Draft in March 2006. Included in this Exposure Draft is a requirement for an entity to recognize in its balance sheet, the overfunded or underfunded status of its defined benefit postretirement plans measured as the difference between the fair value of the plan assets and the benefit obligation. For a pension plan, this would be the projected benefit obligation; for any other postretirement plan, the benefit obligation would be the accumulated

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postretirement benefit obligation. The Exposure Draft also eliminates early measurement dates by requiring the pension plan obligations to be measured as of the date of the entity's balance sheet. It is expected that the final standard will be issued in the third quarter of 2006, with some of its key provisions requiring implementation as of December 31, 2006. The Company is currently evaluating the potential effects of the Exposure Draft on its accounting for its defined benefit pension plans and other postretirement benefit plans.

### 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, 2005, which included additional information about the

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

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 2006 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 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, 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

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prediction of actual results. The Company undertakes no duty to update forward-looking statements.

### EXECUTIVE OVERVIEW

The Company's performance in the second quarter and first six months of 2006 reflected the execution of the Company's strategy of growth through increasing internationalization and a focused, industrial services-based portfolio, augmented by selective strategic acquisitions. Also, during the first half of 2006, the Company was generally able to manage increased commodity and fuel costs in achieving record results. The outlook for the remainder of 2006 is positive as the Company continues to focus on its stated strategic objectives.

The Company's second quarter 2006 revenues were a record \$865.5 million. This is an increase of \$169.4 million or 24% over the second quarter of 2005. Income from continuing operations was a record \$54.1 million compared with \$41.8 million in the second quarter of 2005, an increase of 29%. Diluted earnings per share from continuing operations were a record \$1.28, a 29% increase from the second quarter of 2005.

Revenues for the first six months of 2006 were a record \$1.6 billion. This is an increase of \$298.9 million or 22% over the first six months of 2005. Income from continuing operations was a record \$88.3 million compared with \$64.9 million in the first six months of 2005, an increase of 36%. Diluted earnings per share from continuing operations were a record \$2.09, a 36% increase from the first half of 2005.

Both the second quarter and first six months 2006 performance benefited from the Company's November 21, 2005 acquisition of Hunnebeck Group GmbH (Hunnebeck) and the December 29, 2005 acquisition of the Northern Hemisphere steel mill services operations of Brambles Industrial Services ("BISNH"). Both of these acquisitions were accretive in the second quarter and first six months of 2006. Revenues in the second quarter and first six months of 2006 were reduced by the sale of the Company's U.K.-based Youngman manufacturing operation on October 1, 2005. The net effect of business acquisitions and divestitures increased revenues by \$98.1 million and \$182.9 million for the second quarter and first six months of 2006, respectively, compared with the same periods last year.

During the second quarter of 2006, the Company had record net cash provided by operating activities of \$114.5 million, a 33% increase over the \$86.3 million achieved in the second quarter of 2005. For the first six months of 2006, the Company also had record net cash provided by operating activities of \$184.3 million compared with \$134.5 million for the first six months of 2005, an increase of 37%. The Company has set a target of \$400 million for net cash provided by operating activities for the full year 2006, a 27% increase over the 2005 level. The Company's cash flows are further discussed in the Liquidity and Capital Resources section.

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

#### SEGMENT OVERVIEW

Revenues for the second quarter of 2006 for the Mill Services Segment were \$344.3 million compared with \$271.3 million in the second quarter of 2005, a 27% increase. Operating income increased by 15% to \$38.5 million, from \$33.4 million in the second quarter of 2005. In comparison with the first six months of 2005, this Segment achieved period-over-period revenue growth of \$130.6 million or 24% and operating income growth of \$11.7 million or 19% for the first six months of 2006. Second quarter operating margins for the Segment decreased by 110 basis



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points to 11.2% from 12.3% in the second quarter of 2005. For the first six months, operating margins decreased by 40 basis points to 10.8% from 11.2% for the first six months of 2005. The decrease in operating margins was due principally to certain gains on disposals of non-performing assets in 2005 which were not repeated. The overall effect of acquisitions increased revenues for the Segment by \$56.2 million and \$108.5 million for the second quarter and first six months of 2006, respectively, compared with the same periods last year. BISNH was accretive during both the second quarter and first six months of 2006. The Segment accounted for 40% and 41% of the Company's revenues and 39% and 44% of the operating income for the second quarter and first six months of 2006, respectively.

The Access Services Segment's revenues in the second quarter of 2006 were \$269.7 million compared with \$206.6 million in the second quarter of 2005, a 31% increase. Operating income increased by 72% to \$36.7 million, from \$21.3 million in the second quarter of 2005. Operating margins for the Segment improved by 330 basis points to 13.6% from 10.3% in the second quarter of 2005. In comparison with the first six months of 2005, this Segment achieved period-over-period revenue growth of \$105.3 million or 27% and operating income growth of \$22.8 million or 75%. Operating margins for the first six months of 2006 improved by 300 basis points to 10.8% from 7.8% in the first six months of 2005. These improvements were broad-based, and were led by the North American, European and the Middle Eastern operations. The net effect of business acquisitions and divestitures increased revenues for this Segment by \$41.9 million and \$74.4 million for the second quarter and first six months of 2006, respectively, compared with the same periods last year. Hunnebeck was accretive during both the second quarter and first six months of 2006. The Access Services Segment accounted for 31% and 30% of the Company's revenues and 38% and 32% of the operating income for the second quarter and first six months of 2006, respectively.

The Gas Technologies Segment's revenues in the second quarter of 2006 were \$99.5 million compared with \$90.0 million in the second quarter of 2005, an 11% increase. Operating income decreased by 66% to \$1.2 million, from \$3.6 million in the second quarter of 2005. In comparison with the first six months of 2005, this Segment's revenues increased \$14.8 million or 9% in the first six months of 2006. Operating income for the first six months of 2006 decreased \$2.2 million or 38% compared with the first six months of 2005. The increased revenues in the second quarter and first six months of 2006 were led by the valves, industrial cylinders and cryogenic businesses although higher commodity, energy and insurance costs negatively impacted operating income for these businesses. These increased costs reduced operating margins for this Segment by 280 basis points to 1.2% from 4.0%, and by 140 basis points to 1.9% from 3.3% for the second quarter and first six months of 2006 compared to the same periods last year, respectively. This Segment accounted for 11% of the Company's revenues for both the second quarter and first six months of 2006, and 1% and 2% of the operating income for the second quarter and the first six months of 2006, respectively.

All five of the businesses in the Engineered Products and Services ("all other") Category contributed higher revenues in the second quarter of 2006 and first six months of 2006 compared with the comparable periods in 2005. Additionally, four of the five businesses contributed higher operating income, with only the roofing granules and abrasives business showing slightly lower operating income in the second quarter and first six months of 2006 due to higher transportation and energy costs. Overall, operating margins for the Category in the second quarter of 2006 improved by 20 basis points to 14.5% from 14.3% in the second quarter of 2005. Operating margins for the first six months of 2006 improved by 160 basis points to 13.3% from 11.7% in the first six months of 2005.

In comparison to the second quarter of 2005, the impact of foreign currency translation for the Company increased second quarter 2006 sales and pre-tax income by \$4.4 million and \$0.8 million, respectively. For the first six months

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of 2006, the impact of foreign currency translation reduced sales by \$12.2 million but increased pre-tax income by \$0.8 million, compared to the same period in 2005.

### OUTLOOK OVERVIEW

The Company's operations span several industries and products as more fully discussed in Part I, Item 1, "Business," of the Company's Form 10-K for the year ended December 31, 2005. On a macro basis, the Company is affected by worldwide steel mill production and capacity utilization; non-residential construction and industrial maintenance activities; industrial production volume; and the general business trend towards the outsourcing of services. The overall outlook for 2006 continues to be positive for these business drivers.

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

The Company's Mill Services Segment expects to benefit from consistent levels of steel production at mills served by the Company, new contract signings, contract renewals and a full year of accretion from the December 29, 2005 acquisition of BISNH. However, the Company also expects to experience continued higher energy costs that may have a negative impact on operating margins, to the extent these costs cannot be passed to customers.

Both domestic and international Access Services activity remains strong. Although the sale of the Youngman light-access manufacturing business in late 2005 will modestly affect 2006 revenues, improvements to operating performance in 2006 for the Segment are expected to be led by a full year of accretion from the November 21, 2005 Hunnebeck acquisition; increased non-residential construction spending and industrial maintenance activity in the Company's major markets; strategic investments or acquisitions in new markets or 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 cost reduction opportunities through consolidated procurement initiatives.

In the Gas Technologies Segment for the remainder of 2006, demand for industrial cylinders and cryogenics equipment is expected to show continued improvement. The propane business is expected to return to a more normal business cycle in comparison to the prior two years, and an overall improvement in the valves business is expected. International operations are expected to continue to perform well. However, the risk remains that certain commodity cost inflation and the availability of certain raw materials could continue to adversely affect this Segment's results.

The outlook for the Engineered Products and Services ("all other") Category is positive for the remainder of 2006. The Company's railway track maintenance services and equipment business's income and margins are expected to continue to benefit from the shift toward contract services, with several major contracts starting in 2006. The air-cooled heat exchangers business is expected to continue to benefit from strong energy market demand due to increased natural gas drilling and transmission. While not expecting a repeat of the same level of benefits from post-Katrina rebuilding experienced in the second half of 2005, the industrial grating products business is expected to continue to post improved results in 2006 due to strong end-markets in energy and non-residential construction. The boiler and process equipment business is also expected to continue its strong performance.

The stable or improved market conditions for most of the Company's services and

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products and the significant investments made recently for acquisitions 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 for the remainder of 2006. The record performance achieved in the first six months of 2006 provides a solid foundation towards achieving the full-year objective.

| REVENUES BY REGION     |                    |          |                        |          |       |
|------------------------|--------------------|----------|------------------------|----------|-------|
| (DOLLARS IN MILLIONS)  | TOTAL REVENUES     |          | PERCENTAGE GROWTH FROM |          |       |
|                        | THREE MONTHS ENDED |          | 2005 TO 2006           |          |       |
|                        | 2006               | 2005     | VOLUME                 | CURRENCY | TOTAL |
| Europe                 | \$ 398.8           | \$ 292.7 | 35.7%                  | 0.6%     | 36.3% |
| North America          | 351.0              | 292.1    | 19.5                   | 0.6      | 20.1  |
| Latin America          | 41.3               | 38.4     | 3.0                    | 4.5      | 7.5   |
| Middle East and Africa | 38.6               | 38.3     | 1.8                    | -1.0     | 0.8   |
| Asia/Pacific           | 35.8               | 34.6     | 5.1                    | -1.6     | 3.5   |
| Total                  | \$ 865.5           | \$ 696.1 | 23.7%                  | 0.6%     | 24.3% |

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

| REVENUES BY REGION     |                  |           |                        |          |       |
|------------------------|------------------|-----------|------------------------|----------|-------|
| (DOLLARS IN MILLIONS)  | TOTAL REVENUES   |           | PERCENTAGE GROWTH FROM |          |       |
|                        | SIX MONTHS ENDED |           | 2005 TO 2006           |          |       |
|                        | 2006             | 2005      | VOLUME                 | CURRENCY | TOTAL |
| Europe                 | \$ 746.7         | \$ 556.5  | 37.6%                  | -3.4%    | 34.2% |
| North America          | 659.9            | 562.4     | 16.8                   | 0.5      | 17.3  |
| Latin America          | 81.5             | 72.9      | 3.3                    | 8.4      | 11.7  |
| Middle East and Africa | 79.5             | 77.7      | 3.3                    | -0.9     | 2.4   |
| Asia/Pacific           | 67.5             | 66.7      | 3.8                    | -2.6     | 1.2   |
| Total                  | \$1,635.1        | \$1,336.2 | 23.4%                  | -0.9%    | 22.4% |

#### 2006 HIGHLIGHTS

The following significant items affected the Company overall during the second quarter and first six months of 2006 in comparison with the second quarter and first six months of 2005, respectively:

#### Company Wide:

- o Strong worldwide economic activity, as well as the accretive performance of the Hunnebeck and BISNH acquisitions, benefited the Company in the second quarter and first six months of 2006. This included increased access equipment services, sales and rentals, especially in North America, Europe and the Middle East; net increased volume and new business in the Mill

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- Services Segment; increased global demand for railway track maintenance services and equipment; and increased demand for air-cooled heat exchangers, industrial valves, propane equipment, cryogenics equipment, industrial cylinders and industrial grating products.
- o As expected, during the second quarter and first six months of 2006, the Company experienced higher fuel and energy-related costs, as well as higher commodity costs for certain manufacturing businesses. To the extent that such costs cannot be passed to customers in the future, operating income may be adversely affected.
  - o Total pension expense for the first six months of 2006 increased \$1.8 million from the first six months of 2005. Defined contribution and multi-employer plan expenses for the first six months of 2006 increased approximately \$2.4 million from the first six months of 2005. This was partially offset by decreased defined benefit pension expense of approximately \$0.6 million due to improved returns on plan assets. The Company is currently taking additional actions designed to further mitigate pension expense volatility. This is more fully discussed in the Outlook, Trends and Strategies section.
  - o During the first six months of 2006, international sales and operating income were 62% and 75%, respectively, of total sales and income. This compares with the first six months of 2005 levels of 60% of sales and 72% of operating income. As expected, the international percentages have increased as a result of the Hunnebeck and BISNH acquisitions.

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

MILL SERVICES SEGMENT:

|                          | THREE MONTHS<br>ENDED JUNE 30 |          | SIX MONTHS<br>ENDED JUNE 30 |          |
|--------------------------|-------------------------------|----------|-----------------------------|----------|
| (DOLLARS IN MILLIONS)    | 2006                          | 2005     | 2006                        | 2005     |
| Revenues                 | \$ 344.3                      | \$ 271.3 | \$ 670.5                    | \$ 539.9 |
| Operating income         | 38.5                          | 33.4     | 72.1                        | 60.4     |
| Operating margin percent | 11.2%                         | 12.3%    | 10.8%                       | 11.2%    |

| MILL SERVICES SEGMENT -<br>SIGNIFICANT IMPACTS ON REVENUES | THREE MONTHS<br>ENDED JUNE 30 | SIX MONTHS<br>ENDED JUNE 30 |
|--|-------------------------------|-----------------------------|
|--|-------------------------------|-----------------------------|

| (IN MILLIONS)                          | THREE MONTHS<br>ENDED JUNE 30 | SIX MONTHS<br>ENDED JUNE 30 |
|--|-------------------------------|-----------------------------|
| Revenues - 2005                        | \$ 271.3                      | \$ 539.9                    |
| Acquisitions - (BISNH and Evulca SAS)  | 56.2                          | 108.5                       |
| Increased volume and new business      | 13.2                          | 25.2                        |
| Impact of foreign currency translation | 3.4                           | (3.2)                       |
| Other                                  | 0.2                           | 0.1                         |
| Revenues - 2006                        | \$ 344.3                      | \$ 670.5                    |

MILL SERVICES SEGMENT - SIGNIFICANT IMPACTS ON OPERATING INCOME:

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- o Operating income for the second quarter and first six months of 2006 increased by \$5.1 million and \$11.7 million, respectively, as a result of the BISNH acquisition, increased volumes and new business, particularly in Europe, partially offset by increased operating costs (as noted below).
- o Compared with the second quarter and first six months of 2005, the Segment's operating income and margins in the second quarter and first six months of 2006 were negatively impacted by increased fuel and energy-related costs (excluding increased costs due to acquisitions) of approximately \$3 million and \$6 million, respectively.
- o Foreign currency translation in the second quarter and first six months of 2006 increased operating income for this Segment by \$0.9 million and \$1.1 million, respectively, compared with the second quarter and first six months of 2005.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ACCESS SERVICES SEGMENT:

| (DOLLARS IN MILLIONS)    | THREE MONTHS<br>ENDED JUNE 30 |          | SIX MONTHS<br>ENDED JUNE 30 |          |
|--------------------------|-------------------------------|----------|-----------------------------|----------|
|                          | 2006                          | 2005     | 2006                        | 2005     |
| Revenues                 | \$ 269.7                      | \$ 206.6 | \$ 495.5                    | \$ 390.2 |
| Operating income         | 36.7                          | 21.3     | 53.4                        | 30.6     |
| Operating margin percent | 13.6%                         | 10.3%    | 10.8%                       | 7.8%     |

| ACCESS SERVICES SEGMENT -<br>SIGNIFICANT IMPACTS ON REVENUES   | THREE MONTHS<br>ENDED JUNE 30 | SIX MONTHS<br>ENDED JUNE 30 |
|--|-------------------------------|-----------------------------|
| (IN MILLIONS)  |                               |                             |
| Revenues - 2005  | \$ 206.6                      | \$ 390.2                    |
| Net effect of acquisitions and divestitures<br>(Hunnebeck offset by Youngman light-access<br>manufacturing unit divestiture) | 41.9                          | 74.4                        |
| Net increased volume and new business  | 20.2                          | 40.1                        |
| Impact of foreign currency translation   | 1.0                           | (8.3)                       |
| Other  | -                             | (0.9)                       |
| Revenues - 2006  | \$ 269.7                      | \$ 495.5                    |

ACCESS SERVICES SEGMENT - SIGNIFICANT IMPACTS ON OPERATING INCOME:

- o In the first half of 2006, there was a continued strengthening in the North American non-residential construction markets that started in the latter half of 2004. This had a positive effect on volume (particularly equipment rentals) which caused overall margins and operating income in North America to improve. Equipment rentals, particularly in the construction sector, provide the highest margins for this Segment.

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- o The net effect of acquisitions and divestitures had a positive effect on the second quarter and first six months of 2006 operating income, with the Hunnebeck business performing well.
- o The international access services business continued to improve, predominantly in Europe and the Middle East, due to increased non-residential construction spending and industrial maintenance activity in the Company's major markets, as well as the Hunnebeck acquisition. During the first six months of 2006, the international operations outside of the U.K. had \$260.6 million in revenues and \$38.3 million in operating income. This compares with \$145.0 million in revenues and \$19.5 million in operating income for the first six months of 2005.
- o The impact of foreign currency translation in the second quarter and first six months of 2006 did not have a material impact on operating income for this Segment when compared with the second quarter and first six months of 2005.

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

#### GAS TECHNOLOGIES SEGMENT:

|                          | THREE MONTHS<br>ENDED JUNE 30 |         | SIX MONTHS<br>ENDED JUNE 30 |          |
|--------------------------|-------------------------------|---------|-----------------------------|----------|
| (IN MILLIONS)            | 2006                          | 2005    | 2006                        | 2005     |
| Revenues                 | \$ 99.5                       | \$ 90.0 | \$ 187.0                    | \$ 172.2 |
| Operating income         | 1.2                           | 3.6     | 3.6                         | 5.7      |
| Operating margin percent | 1.2%                          | 4.0%    | 1.9%                        | 3.3%     |

| GAS TECHNOLOGIES SEGMENT -<br>SIGNIFICANT IMPACTS ON REVENUES        | THREE MONTHS<br>ENDED JUNE 30 | SIX MONTHS<br>ENDED JUNE 30 |
|--|-------------------------------|-----------------------------|
| (IN MILLIONS)  |                               |                             |
| Revenues - 2005  | \$ 90.0                       | \$ 172.2                    |
| Increased demand for certain valves and composite-wrapped cylinders. | 4.2                           | 7.5                         |
| Increased demand for cryogenics equipment and industrial cylinders.  | 2.9                           | 7.6                         |
| Increased demand for propane tanks in the second quarter of 2006.    | 2.2                           | (0.1)                       |
| Other  | 0.2                           | (0.2)                       |
| Revenues - 2006  | \$ 99.5                       | \$ 187.0                    |

#### GAS TECHNOLOGIES SEGMENT - SIGNIFICANT IMPACTS ON OPERATING INCOME:

- o Operational improvements and the effect of increased sales were offset by increased brass and insurance costs in the valves business in the second quarter and first six months of 2006 compared with the second quarter and first six months of 2005. A strategic action plan has been implemented to improve the results of the valves business. Cost savings as a result of this plan helped decrease the impact of significantly increased brass costs. This plan is further discussed in the Outlook, Trends and Strategies section.

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- o The international businesses, principally in Europe and, to a lesser extent, Asia, contributed to the improved performance of the cryogenics business during the second quarter and first six months of 2006 compared with the second quarter and first six months of 2005.
- o Despite higher demand for industrial cylinders, operating income decreased due mainly to the effect of equipment repairs and maintenance, product mix and higher energy-related costs.
- o Despite increased demand for propane tanks in the second quarter of 2006, operating income decreased due to increased commodity and insurance costs. The negative effect of these items was partially offset by favorable product mix and process improvement initiatives.
- o Slightly lower operating income in the second quarter and first six months of 2006 for composite-wrapped cylinders was due to unfavorable product mix and higher raw material costs for aluminum and carbon fiber.
- o The impact of foreign currency translation in the second quarter and first six months of 2006 did not have a material impact on operating income for this Segment when compared with the second quarter and first six months of 2005.

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

#### ENGINEERED PRODUCTS AND SERVICES ("ALL OTHER") CATEGORY:

|                          | THREE MONTHS<br>ENDED JUNE 30 |          | SIX MONTHS<br>ENDED JUNE 30 |          |
|--------------------------|-------------------------------|----------|-----------------------------|----------|
| (IN MILLIONS)            | 2006                          | 2005     | 2006                        | 2005     |
| Revenues                 | \$ 152.1                      | \$ 128.2 | \$ 282.1                    | \$ 233.9 |
| Operating income         | 22.0                          | 18.3     | 37.4                        | 27.3     |
| Operating margin percent | 14.5%                         | 14.3%    | 13.3%                       | 11.7%    |

#### ENGINEERED PRODUCTS & SERVICES ("ALL OTHER") CATEGORY - SIGNIFICANT IMPACTS ON REVENUES

| (IN MILLIONS)                                    | THREE MONTHS<br>ENDED JUNE 30 | SIX MONTHS<br>ENDED JUNE 30 |
|--|-------------------------------|-----------------------------|
| Revenues - 2005                                  | \$ 128.2                      | \$ 233.9                    |
| Air-cooled heat exchangers                       | 10.1                          | 21.8                        |
| Railway track maintenance services and equipment | 9.0                           | 17.0                        |
| Industrial grating products                      | 2.5                           | 3.9                         |
| Boiler and process equipment                     | 1.2                           | 2.5                         |
| Roofing granules and abrasives                   | 1.2                           | 3.7                         |
| Impact of foreign currency translation           | (0.3)                         | (0.8)                       |
| Other  | 0.2                           | 0.1                         |
| Revenues - 2006                                  | \$ 152.1                      | \$ 282.1                    |

#### ENGINEERED PRODUCTS AND SERVICES ("ALL OTHER") CATEGORY - SIGNIFICANT IMPACTS ON OPERATING INCOME:

- o Operating income for the air-cooled heat exchangers business improved in the second quarter and first six months of 2006 due to increased volume resulting from an improved natural gas market.

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- o Higher operating income in the second quarter and first six months of 2006, in comparison with the same periods last year, for the railway track maintenance services and equipment business was due principally to increased repair parts and rail equipment sales. This was partially offset by reduced contract services income due to higher maintenance and start-up costs as well as downtime for certain machines.
- o Increased second quarter and first six months 2006 operating income for the industrial grating products business was due principally to higher volume and an improved product mix.
- o The boiler and process equipment business delivered improved second quarter and first six months 2006 results due to improved revenues from the new-generation Mach boilers, Thermific boilers and process equipment.
- o Strong demand for roofing granules and abrasives again resulted in profitable results for that business in the second quarter and first six months of 2006. However, these results were negatively impacted by increased energy costs in 2006 which reduced operating margins.
- o The impact of foreign currency translation in the second quarter and first six months of 2006 did not have a material impact on operating income for this Category when compared with the second quarter and first six months of 2005.

### OUTLOOK, TRENDS AND STRATEGIES

Looking to the remainder of 2006 and beyond, the following significant items, trends and strategies are expected to affect the Company:

#### Company Wide:

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- o The Company will continue its focus on expanding the industrial services businesses, with a particular emphasis on growing the Mill Services Segment and the Access Services Segment through the provision of additional services to existing customers, new contracts in both mature and emerging markets and strategic acquisitions. Additionally, new higher-margin service opportunities in railway services will be pursued.

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

- o The Company will continue to invest in strategic acquisitions and growth capital investments; however, management will be very selective with the capital investments choosing those with the highest economic value added.
- o The armed hostilities in the Middle East could 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 A greater focus on corporate-wide expansion into China and other emerging economies (e.g., Brazil, India, etc.) is expected in 2006 and beyond. More specifically, within the next three to five years, a focused strategy of the Company will be to approximately double the presence in the Latin American, Asia Pacific, Middle East and Africa, and Eastern European markets to approximately 30% of total revenues.
- o The continued growth of the Chinese steel industry, as well as other Asian 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.



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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 Increases in energy and commodity costs (e.g., natural gas, steel, brass, aluminum, etc.) and worldwide demand for these commodities could have an adverse effect on the Company's raw material costs and ability to obtain the necessary raw materials. Fuel and energy costs increased approximately \$10 million in the first six months of 2006 compared with the first six months of 2005 (excluding increased costs due to acquisitions). Should cost increases continue, it could result in reduced operating income for certain products to the extent that such costs cannot be passed on to customers. The effect of the Middle East armed hostilities on the cost of fuel and commodities is currently unknown, but it could have a significant effect. Regardless, commodity costs are still anticipated to increase in the second half of 2006. The potential impact of this risk is currently unknown.
- o Foreign currency translation had an overall unfavorable impact on the Company's sales during the first six months of 2006 compared with the first six months of 2005, but a positive effect on operating income. As 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 An internal target of \$400 million in net cash provided by operating activities has been established for 2006. Currently, this target is expected to be achieved, helping to support the Company's growth initiatives.
- 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 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 Total pension expense (defined benefit, defined contribution and multi-employer) for 2006 is expected to approximate or be slightly higher than the 2005 level. In the U.K., defined benefit pension expense is expected to decline in 2006 due to the significant level of cash contributions, including voluntary cash contributions (approximately \$16.9 million during 2005), to the defined benefit pension plan as well as the improved 2005 performance of the plan's assets. Domestically, the majority of the twenty-year amortization of the transition asset (from the initial implementation of SFAS No. 87 in 1986) has ceased during 2006. By itself, the elimination of this benefit is projected to increase domestic defined-benefit pension expense by approximately \$1.0 million when compared with 2005. 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. On a comparative basis, total pension expense in the first six months of 2006 was \$1.8 million higher than the first six months of 2005.
- 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 currently approximately 47% of the Company's borrowings are at variable interest rates (in comparison to approximately 50% at December 31, 2005 and 16% at June 30, 2005).

Mill Services Segment:

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- o To maintain pricing levels, a more disciplined steel industry has been adjusting production levels to bring inventories in-line with current demand. However, based on current market conditions and industry reports, the Company expects global steel production to remain stable in 2006, which would generally have a favorable effect on this Segment's revenues.
- o The increased energy-related costs this Segment experienced during the first six months of 2006 are expected to persist through the remainder of 2006. In the first six months of 2006, these costs increased approximately \$6 million

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

- compared with the first six months of 2005 (excluding increased costs due to acquisitions). Some of these costs were passed on to customers in the form of selling price increases. Given the volatility of such costs, the future effect on the Company cannot be quantified.
- o The Company has been placing significant emphasis on improving operating margins of this Segment. Specific plans for 2006 include global procurement initiatives; process improvement programs; maintenance best practices programs; and execution of its reorganization plan.
  - o Further consolidation in the global steel industry is probable. Should 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 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.

#### Access Services Segment:

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- o Both the international and domestic Access Services businesses are expected to show continued improvement during the remainder of 2006. Specifically, international and North American non-residential construction activity continued to improve in the first six months of 2006 and the overall market outlook remains positive. Various industry sources are currently forecasting continued growth for most non-residential construction markets served by this Segment during the remainder of 2006. Additionally, new product line additions should continue to benefit growth in North America.
- o In October 2005, the U.K.-based Youngman light-access manufacturing unit was sold, which has eliminated the associated revenue. For the remainder of 2006, the revenue decrease will be offset by increased sales and income from the November 2005 Hunnebeck acquisition and the July 2006 Cleton acquisition, and through the further development of core activities. Additionally, the sale of the Youngman unit has allowed for greater focus on the more profitable rental business.

#### Gas Technologies Segment:

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- o Worldwide supply and demand for steel, aluminum and the availability of carbon fiber used to manufacture filament-wound composite cylinders could have adverse effects on future raw material costs and this Segment's ability to obtain the necessary raw materials. Additionally, the price of

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brass, a raw material used for the production of certain valves, continued to increase during the first six months of 2006. Should brass prices continue to increase during the remainder of 2006, this could result in reduced operating income for certain products to the extent that such costs cannot be passed on to customers.

- o A comprehensive strategic plan to improve the performance of the valves business was developed during the fourth quarter of 2005 and is currently being executed. The plan includes the following: a new senior management team; development and marketing of new products; focus on an expanded international customer base; consolidating certain manufacturing processes; process improvements within the manufacturing operations including outsourcing; and optimization of the organizational structure of the business. Also, management is currently studying the possibility of rationalizing certain product lines. If the market conditions encountered during 2005 persist and raw material costs continue to increase, despite execution of the strategic action plan, the valuation of this business could be negatively impacted.
- o The industrial cylinder and cryogenics equipment businesses are expected to show continued improved performance for the remainder of 2006.

### Engineered Products and Services ("all other") Category:

- o International demand for the railway track maintenance services and equipment business' products and services has been strong and is expected to remain so in 2006. However, on a comparative basis, second-half 2006 sales are expected to be less than 2005 due to the shipment of several large machine orders in 2005. Despite this expected decrease in sales, operating income is expected to be higher in 2006 due to increased volume of higher-margin industrial services and manufacturing process improvements and efficiencies that are expected to improve margins on a long-term basis. Additionally, higher-margin international equipment sales will continue to be pursued by this business.
- o The industrial grating business is expected to sustain improved operating income for the remainder of 2006.
- 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 most 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 rising steel prices could have on operating income.
- o Consistent, sustained profitable results are expected from the roofing granules and abrasives business, although increased energy costs could continue to impact margins. This business is pursuing the use of more energy-efficient equipment to help mitigate the increased energy-related costs.

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

- o Due to an improving natural gas market and additional North American opportunities, demand for air-cooled heat exchangers is expected to remain strong for the remainder of 2006.

### RESULTS OF OPERATIONS

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| (DOLLARS ARE IN MILLIONS, EXCEPT<br>PER SHARE AND PERCENTAGES) | THREE MONTHS<br>ENDED JUNE 30 |          | SIX MONTHS<br>ENDED JUNE 30 |           |
|--|-------------------------------|----------|-----------------------------|-----------|
|  | 2006                          | 2005     | 2006                        | 2005      |
| Revenues from continuing operations                            | \$ 865.5                      | \$ 696.1 | \$ 1,635.1                  | \$ 1,336. |
| Cost of services and products sold                             | 641.6                         | 526.3    | 1,220.6                     | 1,020.    |
| Selling, general and administrative expenses                   | 123.9                         | 95.2     | 244.5                       | 192.      |
| Other (income) expenses  | 1.7                           | (0.6)    | 3.5                         | 0.        |
| Operating income from continuing operations                    | 97.6                          | 74.5     | 165.0                       | 121.      |
| Interest expense   | 14.6                          | 10.4     | 28.7                        | 20.       |
| Income tax expense from continuing operations                  | 27.9                          | 20.6     | 45.6                        | 32.       |
| Net income   | 53.9                          | 41.7     | 88.1                        | 64.       |
| Diluted earnings per common share                              | 1.28                          | 0.99     | 2.09                        | 1.5       |
| Consolidated effective income tax rate                         | 33.2%                         | 31.9%    | 33.0%                       | 32.       |

### COMPARATIVE ANALYSIS OF CONSOLIDATED RESULTS

#### REVENUES

Revenues for the second quarter of 2006 increased \$169.4 million or 24% from the second quarter of 2005. Revenues for the first six months of 2006 increased \$298.9 million or 22% from the first six months of 2005. These increases were attributable to the following significant items:

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

#### CHANGES IN REVENUES - 2006 VS. 2005

(IN MILLIONS)

Net effect of business acquisitions and divestitures in the Mill Services Segment (\$56.2 million and \$108.5 million, for the second quarter and six months, respectively) and the Access Services Segment (\$41.9 million and \$74.4 million for the second quarter and six months, respectively).

Net increased revenues in the Access Services Segment due principally to improved markets in North America and the strength of the international business, particularly in Europe (excluding the net effect of acquisitions and divestitures).

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

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Increased revenues of the air-cooled heat exchangers business due to an improved natural gas market.

Increased revenues in the railway track maintenance services and equipment business due to increased rail equipment sales and contract services.

Net increased revenues in the Gas Technologies Segment due principally to increased demand for certain valves, industrial cylinders, cryogenics equipment and propane tanks (second quarter only).

Increased revenues in the industrial grating products business due to improved volume.

Effect of negative foreign currency translation.

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

-----  
 Total Change in Revenues - 2006 vs. 2005  
 =====

\$

COST OF SERVICES AND PRODUCTS SOLD

Cost of services and products sold for the second quarter of 2006 increased \$115.2 million, or 22%, from the second quarter of 2005, a lower rate than the 24% increase in revenues. Cost of services and products sold for the first six months of 2006 increased \$200.6 million, or 20%, from the first six months of 2005, a lower rate than the 22% increase in revenues. These increases were attributable to the following significant items:

CHANGES IN COST OF SERVICES AND PRODUCTS SOLD - 2006 VS. 2005

SE

-----  
 (IN MILLIONS)  
 -----

Net effect of business acquisitions and divestitures.

\$

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

Effect of foreign currency translation.

Other (due to product mix; cost controls; process improvements; volume-related efficiencies and minor changes across the various units not already mentioned; partially offset by increased fuel and energy-related costs not recovered through selling prices).

-----  
 Total Change in Cost of Services and Products Sold - 2006 vs. 2005  
 =====

\$

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses for the second quarter of 2006 increased \$28.7 million or 30% from the second quarter of 2005, a higher rate than the 24% increase in revenues. SG&A expenses for the first six months of 2006 increased \$52.2 million or 27% from the first six months of 2005, a higher rate than the 22% increase in revenues. These higher relative percentage increases in SG&A expenses as compared with revenues were due principally to the net effect of acquisitions and divestitures and the nature of the businesses acquired. The increases in SG&A expenses were attributable to the following significant items:

CHANGES IN SELLING, GENERAL AND ADMINISTRATIVE EXPENSES - 2006 VS. 2005

SE

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(IN MILLIONS)

Net effect of business acquisitions and divestitures. \$  
 Higher compensation expense due to salary increases, increased headcount and  
 employee incentive plan costs due to improved performance.  
 Increased commission expense due to increased revenues.  
 Increased professional fees.  
 Effect of foreign currency translation.  
 Other (including increased energy-related costs).

Total Change in Selling, General and Administrative  
 Expenses - 2006 vs. 2005 \$

### 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 expenses were \$1.7 million  
 in the second quarter of 2006, compared with income of \$0.6 million in the  
 comparable 2005 period. Net Other expenses were \$3.5 million in the first six  
 months of 2006, compared with \$0.8 million in the first six months of 2005.  
 These increases in net expenses were attributable to the following significant  
 items:

### CHANGES IN OTHER (INCOME) EXPENSES - 2006 VS. 2005

(IN MILLIONS)

Decrease in net gains on the disposal of non-core assets. \$  
 Increase in other expenses due principally to certain contract termination  
 costs in the second quarter of 2006.  
 Increase in costs to exit activities.  
 Decrease in employee termination benefit costs.

Total Change in Other (Income) Expenses - 2006 vs. 2005 \$

### INTEREST EXPENSE

Interest expense for the second quarter of 2006 increased \$4.2 million or 40%  
 from the second quarter of 2005. For the first six months of 2006 Interest  
 expense increased \$7.8 million or 38% from the first six months of 2005. These  
 increases were principally due to increased borrowings to finance business  
 acquisitions made in the fourth quarter of 2005.

### INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

The increase in income tax expense from continuing operations for the second  
 quarter and first six months of 2006 of \$7.3 million or 35% and \$12.8 million or  
 39%, respectively, was primarily due to increased earnings from continuing  
 operations. The effective income tax rates of 33.2% and 33.0% for the second  
 quarter and first six months of 2006, respectively, compared with 31.9% and  
 32.1% for the second quarter and first six months of 2005, respectively.

### NET INCOME AND EARNINGS PER SHARE

Net income of \$53.9 million and diluted earnings per share of \$1.28 in the  
 second quarter of 2006 exceeded the second quarter of 2005 by \$12.1 million and  
 \$0.29, respectively. Net income of \$88.1 million and diluted earnings per share

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of \$2.09 in the first six months of 2006 exceeded the first six months of 2005 by \$23.3 million and \$0.55, respectively. These increases are primarily due to strong demand for most of the Company's services and products and the net effect of business acquisitions and divestitures.

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

#### LIQUIDITY AND CAPITAL RESOURCES

##### OVERVIEW

Building on 2005's record cash provided by operations of \$315.3 million, the Company continued its momentum by achieving a record \$184.3 million in operating cash in the first six months of 2006, 37% higher than the \$134.5 million in the first six months of 2005. This significant source of cash in the first six months of 2006 enabled the Company to invest \$166.8 million in capital expenditures (over 46% of which were for revenue-growth projects), in addition to paying \$27.2 million in stockholder dividends.

The Company's management reaffirms its previously stated strategic objectives for 2006 that include generating \$400 million in net cash provided by operating activities. The Company has also targeted a minimum of \$100 million of discretionary cash flows for debt reduction; however, the amount of debt reduction will be affected by the timing of growth initiatives (including acquisitions) and the amount of asset sales. The Company's net cash borrowings decreased \$42.1 million in the first six months of 2006. Balance sheet debt, which is affected by foreign currency translation rates, decreased slightly from December 31, 2005 to \$1 billion. However, for the same period, the debt to total capital ratio declined from 50.4% to 47.8%.

The Company's strategy remains to redeploy excess or discretionary cash in new long-term, high renewal-rate services contracts for the Mill Services business; for growth in the Access Services; for sensible bolt-on acquisitions in the industrial services businesses and, to a lesser extent, railway track maintenance services businesses. The Company also foresees continuing its long and consistent history of paying dividends to stockholders.

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

##### 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 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.

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Major uses of operating cash flows and borrowed funds include payroll costs and related benefits; pension funding payments; raw material purchases for the manufacturing businesses; income tax payments; 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; debt payments; and dividend payments. Cash will also be used for bolt-on acquisitions as the appropriate opportunities arise.

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 June 30, 2006.

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

#### SUMMARY OF CREDIT FACILITIES AND COMMERCIAL PAPER PROGRAMS

AS OF JUNE 30, 2006

| (IN MILLIONS)                    | FACILITY<br>LIMIT | OUTSTANDING<br>BALANCE | AVAILABLE<br>CREDIT |
|----------------------------------|-------------------|------------------------|---------------------|
| U.S. commercial paper program    | \$ 550.0(a)       | \$ 264.7               | \$ 285.3            |
| Euro commercial paper program    | 252.9             | 184.6                  | 68.3                |
| Revolving credit facility (b)    | 450.0             | -                      | 450.0               |
| Supplemental credit facility (b) | 100.0             | -                      | 100.0               |
| Bilateral credit facility (c)    | 50.0              | -                      | 50.0                |
| <b>TOTALS AT JUNE 30, 2006</b>   | <b>\$ 1,402.9</b> | <b>\$ 449.3</b>        | <b>\$ 953.6(d)</b>  |

(a) Increased from \$400 million to \$550 million in June 2006.

(b) U.S.-based program

(c) International-based program

(d) 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 \$600 million.

For more information on the Company's credit facilities, see Note 6, "Debt and Credit Agreements," to the Company's Form 10-K for the year ended December 31, 2005.

CREDIT RATINGS AND OUTLOOK - The following table summarizes the Company's debt ratings at June 30, 2006:

|                         | LONG-TERM NOTES | U.S.-BASED<br>COMMERCIAL PAPER | OUTLOOK |
|-------------------------|-----------------|--------------------------------|---------|
| Standard & Poor's (S&P) | A-              | A-2                            | Stable  |
| Moody's                 | A3              | P-2                            | Stable  |
| Fitch                   | A-              | F2                             | Stable  |



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The Company's euro-based commercial paper program has not been rated since the euro market does not require it. In June 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 2006, Fitch reaffirmed its A- and F2 ratings for the Company's long-term notes and U.S. commercial paper, respectively, and its stable outlook. Moody's reaffirmed their ratings for the Company in December 2005. A downgrade to the Company's credit ratings would probably increase the costs to the Company to borrow funds. An improvement in the Company's credit ratings would probably decrease the costs to the Company to borrow funds.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

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

| (DOLLARS ARE IN MILLIONS)            | JUNE 30<br>2006   | DECEMBER 31<br>2005 | INCREASE<br>(DECREASE) |
|--------------------------------------|-------------------|---------------------|------------------------|
| <b>CURRENT ASSETS</b>                |                   |                     |                        |
| Cash and cash equivalents            | \$ 88.3           | \$ 120.9            | \$ (32.6)              |
| Accounts receivable, net             | 706.4             | 666.3               | 40.1                   |
| Inventories                          | 269.9             | 251.1               | 18.8                   |
| Other current assets                 | 63.0              | 60.4                | 2.6                    |
| Assets held-for-sale                 | 2.8               | 2.3                 | 0.5                    |
| <b>Total current assets</b>          | <b>1,130.3(a)</b> | <b>1,101.0</b>      | <b>29.3(a)</b>         |
| <b>CURRENT LIABILITIES</b>           |                   |                     |                        |
| Notes payable and current maturities | 75.8              | 104.0               | (28.2)                 |
| Accounts payable                     | 251.8             | 247.2               | 4.6                    |
| Accrued compensation                 | 71.3              | 75.7                | (4.4)                  |
| Income taxes payable                 | 42.8              | 42.3                | 0.5                    |
| Other current liabilities            | 305.5             | 279.2               | 26.3                   |
| <b>Total current liabilities</b>     | <b>747.2</b>      | <b>748.4</b>        | <b>(1.2)</b>           |
| <b>WORKING CAPITAL</b>               | <b>\$ 383.1</b>   | <b>\$ 352.6</b>     | <b>\$ 30.5</b>         |
| <b>CURRENT RATIO</b>                 | <b>1.5:1</b>      | <b>1.5:1</b>        |                        |

(a) Does not total due to rounding

Working capital increased approximately 9% in the first six months of 2006 due principally to the following factors:

- o Cash decreased by \$32.6 million due to payments made to reduce the Company's net cash borrowings.
- o Net receivables increased by \$40.1 million due principally to increases in receivables in the Mill Services and Access Services Segments which were

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largely due to higher sales and foreign currency translation as a result of the strengthening of the euro and the British pound sterling in relation to the U.S. dollar. Partially offsetting these increases was the timing of cash collections of receivables in the railway equipment business.

- o Inventories increased \$18.8 million from December 31, 2005 due to the following factors:
  - Increased raw materials, finished goods and work-in-process inventories in the Gas Technologies Segment due to higher material costs and to meet expected customer demand in 2006.
  - Increased finished goods and raw materials in the Engineered Products and Services Category due to higher material costs and to meet expected customer demand in 2006.
  - Increased finished goods in the international Access Services business to meet expected customer demand in 2006.
- o Notes payable and current maturities decreased \$28.2 million based on the timing of payments.
- o Other current liabilities increased \$26.3 million principally due to accrued interest on the Company's borrowings.

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, 2005, the Company's mill services contracts had estimated future revenues of \$4.3 billion. In addition, as of June 30, 2006, the Company had an order backlog of \$322.9 million for its manufacturing businesses and railway track maintenance services. This compares with \$275.8 million at December 31, 2005 and \$269.1 million at June 30, 2005. The increase from December 31, 2005 is due principally to increased demand for certain products within the Gas Technologies Segment and industrial grating and heat exchangers within the Engineered Products and Services ("all other") Category. The railway track maintenance services and equipment

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

business backlog includes a significant portion that will not be realized until 2007 and later due to the long lead time necessary to build certain equipment, and the long-term nature of certain service contracts. Backlog for scaffolding, shoring and forming services and for roofing granules and slag abrasives is not included in the total backlog because it is generally not quantifiable, due to the nature of the products and services provided.

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

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### SUMMARIZED CASH FLOW INFORMATION

| (IN MILLIONS)                           | SIX MONTHS ENDED<br>JUNE 30 |          |
|---|-----------------------------|----------|
|   | 2006                        | 2005     |
| Net cash provided by (used in):         |                             |          |
| Operating activities                    | \$ 184.3                    | \$ 134.5 |
| Investing activities                    | (161.7)                     | (129.4)  |
| Financing activities                    | (62.1)                      | 8.6      |
| Effect of exchange rate changes on cash | 6.9                         | (8.2)    |
| Net change in cash and cash equivalents | \$ (32.7) (a)               | \$ 5.5   |

(a) Does not total due to rounding

CASH FROM OPERATING ACTIVITIES - Net cash provided by operating activities in the first six months of 2006 was \$184.3 million, an increase of \$49.8 million from the first six months of 2005. The increased cash from operations was a result of the following factors:

- o Increased net income in the first six months of 2006 compared with the first six months of 2005.
- o The use of cash for net inventories in the first six months of 2006 was significantly less than the use of cash for net inventories for the comparable period in 2005. This was due principally to the timing of inventory purchases in the Access Services Segment and production in the Gas Technologies Segment and the railway track maintenance services and equipment business.

CASH USED IN INVESTING ACTIVITIES - Capital investments for the first six months of 2006 were \$166.8 million. This was an increase of \$31.0 million over the first six months of 2005. Over 46% of the investments were for projects intended to grow future revenues. Investments were made predominantly in the industrial services businesses, with 47% in the Mill Services Segment and 37% in the Access Services Segment. Throughout the remainder of 2006, the Company plans to continue to invest in high-return projects and 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 June 30, 2006 and December 31, 2005.

| (DOLLARS ARE IN MILLIONS)            | JUNE 30<br>2006 | DECEMBER 31<br>2005 |
|--------------------------------------|-----------------|---------------------|
| Notes Payable and Current Maturities | \$ 75.8         | \$ 104.0            |
| Long-term Debt                       | 931.3           | 905.9               |
| Total Debt                           | 1,007.1         | 1,009.9             |
| Total Equity                         | 1,099.1         | 993.9               |
| Total Capital                        | \$ 2,106.2      | \$ 2,003.9 (a)      |
| Total Debt to Total Capital          | 47.8%           | 50.4%               |

(a) Does not total due to rounding

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

The Company's debt as a percent of total capital as of June 30, 2006 decreased from December 31, 2005. Overall debt decreased due to payments made to reduce the Company's net borrowings, which was partially offset by increases in foreign currency-denominated debt due 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 six months ended June 30, 2006, positive foreign currency translation, and to a lesser extent, increases in additional paid-in capital from stock option exercises.

### 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 June 30, 2006, the Company could increase borrowings by approximately \$641.7 million and still be within its debt covenants. Alternatively, keeping all other factors constant, the Company's equity could decrease by approximately \$427.8 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 be 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 second quarter 2006 results, meaningful improvement in EVA was achieved compared with the prior year second quarter.

The Company is committed to continue paying dividends to stockholders. The Company has increased the dividend rate for twelve consecutive years, and in May 2006, the Company paid its 224th consecutive quarterly cash dividend. In June 2006, the Company declared its 225th consecutive quarterly cash dividend. The Company also plans to pay down debt to the extent possible. Additionally, the Company has authorization to repurchase up to one million of its shares through January 1, 2007.

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 high-return projects and acquisitions, reducing debt to the extent possible, and paying 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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### 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 June 30, 2006. 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 second quarter of 2006.

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## 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, Footnote 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 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 Company's Access Services business may be adversely impacted by slowdowns in non-residential construction and annual industrial and building maintenance cycles;

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- o The railway track maintenance 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 and consumer barbecue grills, or lower demand for 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. The downturn in financial markets during 2000, 2001 and 2002 negatively impacted the Company's pension expense and the accounting for pension assets and liabilities. This resulted in an increase in pre-tax defined benefit pension expense from continuing operations of approximately \$20.8 million for calendar year 2002 compared with 2001 and \$17.7 million for calendar year 2003 compared with 2002. The upturn in certain financial markets beginning in 2003 and certain plan design changes (discussed below) contributed to a decrease in pre-tax defined benefit pension expense from continuing operations of approximately \$3.8 million for 2005 compared with 2004, and approximately \$5.4 million for 2004 compared with 2003. Additionally, defined benefit pension expense declined \$0.6 million for the first six

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

months of 2006 compared with the first six months of 2005. 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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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.

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 2006 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:

| APPROXIMATE CHANGES IN PRE-TAX DEFINED BENEFIT   |                           |                           |
|--|---------------------------|---------------------------|
| PENSION EXPENSE                                  |                           |                           |
|  | U.S. PLANS                | U.K. PLAN                 |
| Discount rate                                    |                           |                           |
| One-half percent increase                        | Decrease of \$1.8 million | Decrease of \$4.8 million |
| One-half percent decrease                        | Increase of \$2.0 million | Increase of \$5.2 million |
| Expected long-term rate of return on plan assets |                           |                           |
| One-half percent increase                        | Decrease of \$1.2 million | Decrease of \$3.0 million |
| One-half percent decrease                        | Increase of \$1.2 million | Increase of \$3.0 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. 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.

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

The Company operates in 45 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

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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;
- o changes in regulatory requirements in the countries in which the Company does business;

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

- o higher tax rates 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;
- 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, Israel, Lebanon and other countries with a continued high risk of armed hostilities. During the first six months of 2006, 2005 and 2004, these countries contributed approximately \$17.9 million, \$15.3 million and \$10.9 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) 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



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operations in any given fiscal period. Approximately 62% and 60% of the Company's sales and approximately 75% and 72% of the Company's operating income from continuing operations for the six months ended June 30, 2006 and 2005, respectively, were derived from operations outside the United States. More specifically, during the six months ended June 30, 2006 and 2005, approximately 20% and 21%, respectively, of the Company's revenues were derived from operations in the U.K. Additionally, approximately 22% and 18% of the Company's revenues were derived from operations with the euro as their functional currency during the six months ended June 30, 2006 and June 30, 2005, 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, and the exposure to these currencies, as well as other foreign currencies, has increased in 2006 due to the acquisitions of Hunnebeck and the Northern Hemisphere mill services operations of Brambles Industrial Services ("BISNH") in the fourth quarter of 2005.

Compared with the corresponding period in 2005, the average values of major currencies changed as follows in relation to the U.S. dollar during the second quarter of 2006, impacting the Company's sales and income:

|   |                        |                          |
|---|------------------------|--------------------------|
| o | British pound sterling | Weakened by less than 1% |
| o | euro                   | Strengthened by 2%       |
| o | South African rand     | Weakened by 3%           |
| o | Brazilian real         | Strengthened by 9%       |
| o | Australian dollar      | Weakened by 2%           |

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

Compared with exchange rates at December 31, 2005, the values of major currencies changed as follows as of June 30, 2006:

|   |                        |                    |
|---|------------------------|--------------------|
| o | British pound sterling | Strengthened by 6% |
| o | euro                   | Strengthened by 6% |
| o | South African rand     | Weakened by 13%    |
| o | Brazilian real         | Strengthened by 7% |
| o | Australian dollar      | Strengthened by 1% |

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 six months of 2006, revenues would have been approximately 0.7% or \$12.2 million higher while operating income would have been approximately 0.9% or \$0.81 million lower if the average exchange rates for the first six months of 2005 were utilized. A similar comparison for the first six months of 2005 would have decreased revenues approximately 2% or \$29.6 million while operating income would have been approximately 2% or \$2.9 million less if the average exchange rates would have remained the same as the first six months of 2004.

Currency changes result in assets and liabilities denominated in local currencies being translated into U.S. dollars at different amounts than at the

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prior period end. These currency changes resulted in increased net assets of \$41.4 million and decreased net assets of \$45.8 million, at June 30, 2006 and 2005, respectively, when compared with December 31, 2005 and 2004, respectively.

The Company seeks to reduce exposures to foreign currency transaction fluctuations through the use of forward exchange contracts. At June 30, 2006, the notional amount of these contracts was \$122.8 million, and over 98% will mature in the third quarter of 2006. 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.

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. The potential financial impact of this risk has increased with the Company's acquisition of BISNH in December 2005. 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

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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 more 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 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 Access Services business rents and sells equipment and provides erection and dismantling services to principally the non-residential 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. Commencing in 2000, due to economic downturns in their home markets, certain international competitors exported significant quantities of rental equipment to the markets the Company serves, particularly the U.S. This resulted in an oversupply of certain equipment and a consequential reduction in product and rental pricing in the markets receiving the excess equipment. The effect of these actions was mitigated, to some extent, in 2005 and the first six months of 2006 due to a buoyant U.S. non-residential construction market. However, 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 manufacturing businesses compete with companies that 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.

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 industries and geographies. However, the Company's Mill Services Segment has several large customers throughout the world with significant accounts receivable balances. In December 2005, the Company acquired BISNH. 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 is probable. Should 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

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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, 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 six months of 2006 and 2005, energy costs have approximated 4.2% and 3.8% of the Company's revenue, 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 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 compared with prior years. Although these costs moderated in 2005, the current outlook for 2006 indicates that there will be increases in the prices of such commodities. If raw material costs associated with the Company's manufactured products increase and the costs cannot be passed on to the Company's customers, operating income would be adversely affected. Additionally, decreased availability of steel or other materials, such as carbon fiber used to manufacture filament-wound composite cylinders, 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.

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

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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 June 30, 2006 and December 31, 2005 include an accrual of \$3.1 million and \$2.8 million for environmental matters, respectively. The amounts charged against pre-tax earnings related to environmental matters totaled \$0.5 million for the six months ended June 30, 2006 and 2005. 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.

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 could, in turn, trigger an event of default under the cross-default provisions of the Company's other outstanding indebtedness. At June 30, 2006, the Company was in compliance with a debt to capital ratio of 47.8% and a net worth of \$1,099.1 million. The company had \$368.9 million in outstanding indebtedness containing these covenants at June 30, 2006.

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

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 June 30, 2006 and December 31, 2005, the Company had recorded liabilities of \$102.1 million and \$102.3 million, respectively, related to both asserted and unasserted insurance claims. Included in the balances at June 30, 2006 and

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December 31, 2005 were \$19.5 million and \$25.2 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 latter part of the year, as the Company's business tends to follow seasonal patterns. If the Company is unable to successfully manage the cash flow and other effects of seasonality on the business, its results of operations may suffer.

### HISTORICAL REVENUE PATTERNS (IN MILLIONS)

|                                  | 2006     | 2005       | 2004       | 2003       |
|----------------------------------|----------|------------|------------|------------|
| First Quarter Ended<br>March 31  | \$ 769.6 | \$ 640.1   | \$ 556.3   | \$ 487.9   |
| Second Quarter Ended June 30     | 865.5    | 696.1      | 617.6      | 536.4      |
| Third Quarter Ended September 30 | -        | 697.5      | 617.3      | 530.2      |
| Fourth Quarter Ended December 31 | -        | 732.5      | 710.9      | 564.0      |
| Totals                           | \$ -     | \$ 2,766.2 | \$ 2,502.1 | \$ 2,118.5 |

(a) Does not total due to rounding.

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

### HISTORICAL CASH PROVIDED BY OPERATIONS (IN MILLIONS)

|                                  | 2006    | 2005         | 2004     | 2003     |
|----------------------------------|---------|--------------|----------|----------|
| First Quarter Ended<br>March 31  | \$ 69.8 | \$ 48.1      | \$ 32.4  | \$ 31.2  |
| Second Quarter Ended June 30     | 114.2   | 86.3         | 64.6     | 59.2     |
| Third Quarter Ended September 30 | --      | 98.1         | 68.9     | 64.1     |
| Fourth Quarter Ended December 31 | --      | 82.7         | 104.6    | 108.4    |
| Totals                           | \$ --   | \$ 315.3 (a) | \$ 270.5 | \$ 262.8 |

(a) Does not total due to rounding.

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

The Company's total debt as of June 30, 2006 was \$1,007 million. Of this amount, approximately 47.4% had variable rates of interest and 52.6% had fixed rates of interest. The weighted average interest rate of total debt was approximately 5.6%. At current debt levels, a one-percentage increase/decrease in variable interest rates would increase/decrease interest expense by approximately \$4.8 million per year.

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

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

-----

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

| PERIOD                         | TOTAL NUMBER OF<br>SHARES<br>PURCHASED | AVERAGE PRICE<br>PAID<br>PER SHARE | TOTAL NUMBER OF SHARES PU<br>AS PART OF PUBLICLY ANNO<br>PLANS OR PROGRA |
|--------------------------------|--|------------------------------------|--|
| April 1, 2006 - April 30, 2006 | --                                     | --                                 | --   |
| May 1, 2006 - May 31, 2006     | --                                     | --                                 | --   |
| June 1, 2006 - June 30, 2006   | --                                     | --                                 | --   |
| Total                          | --                                     | --                                 | --   |

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The Company's share repurchase program was extended by Board of Directors in November 2005. The program authorizes the repurchase of up to 1,000,000 shares of the Company's common stock and expires January 31, 2007.

### ITEM 5. OTHER INFORMATION

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#### DIVIDEND INFORMATION

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On June 20, 2006, the Board of Directors declared a quarterly cash dividend of \$0.325 per share, payable August 15, 2006, to stockholders of record as of July 14, 2006.

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

#### 10b5-1 Plan

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The Chief Executive Officer (CEO) of the Company adopted in the First Quarter of 2006, a personal trading plan, as part of a long-term strategy for asset diversification and liquidity, in accordance with the Securities and Exchange Commission's Rule 10b5-1. Under the plan, which expired in July 2006, the CEO

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exercised, under pre-arranged terms, 100,000 options in open market transactions. All 100,000 shares have been sold under the trading plan.

The President and Chief Financial Officer (CFO) of the Company adopted in the First Quarter of 2006, a personal trading plan, as part of a long-term strategy for asset diversification and liquidity, in accordance with the Securities and Exchange Commission's Rule 10b5-1. Under the plan, which was to expire in August 2006, the President and CFO exercised, under pre-arranged terms, 28,000 options in open market transactions. As of July 20, 2006, all 28,000 shares have been sold under the trading plan.

Rule 10b5-1 allows officers and directors, at a time when they are not in possession of material non-public information, to adopt written plans to sell shares on a regular basis under pre-arranged terms, regardless of any subsequent non-public information they may receive. Exercises of stock options by the CEO or President and CFO pursuant to the terms of their respective plans will be disclosed publicly through Form 144 and Form 4 filings with the Securities and Exchange Commission.

ITEM 6. EXHIBITS

Listing of Exhibits filed with Form 10-Q:

| Exhibit<br>Number<br>----- | Data Required<br>-----   | Location<br>----- |
|----------------------------|--|-------------------|
| 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           |
| 32 (b)                     | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002       | Exhibit           |

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  
(Registrant)

|      |                         |  |
|------|-------------------------|--|
| DATE | August 7, 2006<br>----- | /s/ Salvatore D. Fazzolari<br>-----<br>Salvatore D. Fazzolari<br>President, Chief Financial<br>Officer and Treasurer |
| DATE | August 7, 2006<br>----- | /s/ Stephen J. Schnoor<br>-----  |



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Stephen J. Schnoor  
Vice President and Controller

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