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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2002

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

HARSCO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	23-1483991
(State of incorporation)	(I.R.S. Employer Identification No.)
Camp Hill, Pennsylvania	17001-8888
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone Number (717)763-7064

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES ☒ NO ☐

Title of Each Class	Outstanding Shares at March 31, 2002
Common Stock Par Value $1.25	40,121,711
Preferred Stock Purchase Rights	40,121,711

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended March 31 2002	2001[1]
Revenues from continuing operations:		
Service sales	**$309,861**	$325,064
Product sales	**148,723**	179,559
Other	**19**	421
Total revenues	**458,603**	505,044
Costs and expenses from continuing operations:		
Cost of services sold	**227,187**	237,643
Cost of products sold	**117,330**	147,470
Selling, general, and administrative expenses	**78,394**	81,060
Research and development expenses	**857**	585
Other expense	**1,335**	3,848
Total costs and expenses	**425,103**	470,606
Operating income from continuing operations	**33,500**	34,438
Equity in income (loss) of affiliates, net	**205**	(2,238)
Interest income	**1,363**	1,220
Interest expense	**(11,226)**	(14,540)
Income from continuing operations before income taxes and minority interest	**23,842**	18,880
Provision for income taxes	**7,392**	6,608
Income from continuing operations before minority interest	**16,450**	12,272
Minority interest in net income	**1,445**	1,086
Income from continuing operations	**15,005**	11,186
Discontinued Operations:		
Loss from operations of discontinued business	**(1,319)**	(1,607)
Provision for income taxes	**475**	562
Loss from discontinued operations	**(844)**	(1,045)
Net Income	**$ 14,161**	$ 10,141
Average shares of common stock outstanding	**40,041**	39,807
Basic earnings per common share:		
Income from continuing operations	**.37**	.28
Income from discontinued operations	**(.02)**	(.03)
Basic earnings per common share	**$ .35**	$ .25
Diluted average shares of common stock outstanding	**40,535**	39,879
Diluted earnings per common share:		
Income from continuing operations	**.37**	.28
Income from discontinued operations	**(.02)**	(.03)
Diluted earnings per common share	**$ .35**	$ .25

(1) In order to comply with the Financial Accounting Standards Board (FASB) Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," 2001 information has been reclassified for comparative purposes.

See accompanying notes to consolidated financial statements.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I — FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

(In thousands)	March 31 2002	December 31 2001(1)
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 60,454**	$ 67,409
Accounts receivable, net	**390,227**	386,230
Inventories	**186,658**	176,970
Other current assets	**69,759**	68,545
Total current assets	**707,098**	699,154
Property, plant and equipment, net	**817,771**	834,917
Cost in excess of net assets of businesses acquired, net	**347,778**	353,564
Other assets	**175,796**	180,439
Assets of discontinued operations	**24,428**	22,692
Total assets	**$2,072,871**	$2,090,766
LIABILITIES		
Current liabilities:		
Short-term borrowings	**$ 15,527**	$ 29,559
Current maturities of long term debt	**10,089**	12,422
Accounts payable	**138,519**	162,481
Accrued compensation	**33,802**	37,245
Income taxes	**27,306**	34,755
Dividends payable	**10,030**	9,996
Other current liabilities	**179,357**	178,699
Total current liabilities	**414,630**	465,157
Long-term debt	**741,242**	720,133
Deferred income taxes	**108,462**	103,082
Insurance liabilities	**50,005**	49,019
Other liabilities	**57,977**	57,621
Liabilities of discontinued operations	**10,078**	9,581
Total liabilities	**1,382,394**	1,404,593
SHAREHOLDERS' EQUITY		
Common stock	**83,275**	83,106
Additional paid-in capital	**98,518**	94,597
Accumulated other comprehensive expense	**(139,221)**	(135,263)
Retained earnings	**1,251,810**	1,247,680
	1,294,382	1,290,120
Treasury stock	**(603,905)**	(603,947)
Total shareholders' equity	**690,477**	686,173
Total liabilities and shareholders' equity	**$2,072,871**	$2,090,766

(1) In order to comply with the Financial Accounting Standards Board (FASB) Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," 2001 information has been reclassified for comparative purposes.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I — FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended March 31 2002	2001
Cash flows from operating activities:		
Net income	**$ 14,161**	$ 10,141
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**37,975**	39,274
Amortization	**337**	4,327
Equity in (income) loss of affiliates, net	**(205)**	2,238
Other, net	**1,407**	3,896
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Accounts receivable	**(9,319)**	(26,116)
Inventories	**(12,766)**	(6,175)
Accounts payable	**(20,713)**	(21,779)
Net disbursements related to discontinued defense business	**(291)**	(186)
Other assets and liabilities	**(1,573)**	(3,066)
Net cash provided by operating activities	**9,013**	2,554
Cash flows from investing activities:		
Purchases of property, plant and equipment	**(31,255)**	(33,609)
Proceeds from sale of assets	**10,463**	3,035
Other investing activities	**—**	9
Net cash (used) by investing activities	**(20,792)**	(30,565)
Cash flows from financing activities:		
Short-term borrowings, net	**(12,563)**	(1,515)
Current maturities and long-term debt:		
Additions	**61,136**	80,183
Reductions	**(34,583)**	(31,180)
Cash dividends paid on common stock	**(9,996)**	(9,553)
Common stock issued-options	**3,611**	151
Common stock acquired for treasury	**—**	(50)
Other financing activities	**(1,378)**	(1,206)
Net cash provided by financing activities	**6,227**	36,830
Effect of exchange rate changes on cash	**(1,403)**	(3,874)
Net increase (decrease) in cash and cash equivalents	**(6,955)**	4,945
Cash and cash equivalents at beginning of period	**67,409**	56,422
Cash and cash equivalents at end of period	**$ 60,454**	$ 61,367

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I — FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands)	Three Months Ended March 31 2002	Three Months Ended March 31 2001
Net income	**$14,161**	$ 10,141
Other comprehensive income (expense):		
Foreign currency translation adjustments	**(3,631)**	(17,605)
Net losses on cash flow hedging instruments, net of deferred income taxes	**(2)**	(160)
Pension liability adjustments, net of deferred income taxes	**12**	12
Reclassification adjustment for gain included in net income	**(337)**	—
Other comprehensive expense	**(3,958)**	(17,753)
Total comprehensive income (expense)	**$10,203**	$ (7,612)

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

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 recurring nature) that are necessary to present a fair statement of the interim period. This unaudited interim information should be read in conjunction with the Company's annual Form 10-K filing for the year ended December 31, 2001.

B. Review of Operations by Segment (Unaudited)

(In millions) **Three Months Ended March 31, 2002**	**Infrastructure**	**Mill Services**	**Gas and Fluid Control**	**S3Networks LLC**	**General Corporate**	**Consolidated Totals**
Net sales from continuing operations to unaffiliated customers	**$198.2**	**$176.8**	**$83.6**	**$ —**	**$ —**	**$458.6**
Operating income from continuing operations	**$ 11.3**	**$ 17.7**	**$ 4.2**	**$ —**	**$ 0.3**	**$ 33.5**
Equity in income of affiliates, net	**0.2**	**—**	**—**	**—**	**—**	**0.2**
Interest income	**0.3**	**0.9**	**—**	**—**	**0.2**	**1.4**
Interest expense	**(7.0)**	**(1.3)**	**(0.1)**	**—**	**(2.8)**	**(11.2)**
Income tax (expense) benefit	**(1.4)**	**(5.5)**	**(1.2)**	**—**	**0.7**	**(7.4)**
Minority interest in net income	**(0.1)**	**(1.4)**	**—**	**—**	**—**	**(1.5)**
Segment income (loss) from continuing operations	**3.3**	**10.4**	**2.9**	**—**	**(1.6)**	**15.0**
Loss from discontinued operations	**—**	**—**	**(0.8)**	**—**	**—**	**(0.8)**
Segment net income (loss)	**$ 3.3**	**$ 10.4**	**$ 2.1**	**$ —**	**$(1.6)**	**$ 14.2**

(In millions) **Three Months Ended March 31, 2001** (1)	**Infrastructure**	**Mill Services**	**Gas and Fluid Control**	**S3Networks LLC**	**General Corporate**	**Consolidated Totals**
Net sales from continuing operations to unaffiliated customers	$215.1	$183.1	$106.4	$ —	$ —	$504.6
Operating income (loss) from continuing operations	$ 8.2	$ 18.5	$ 7.9	$ —	$(0.2)	$ 34.4
Equity in income (loss) of affiliates, net	0.4	0.1	—	(2.7)	—	(2.2)
Interest income	0.2	1.0	—	—	—	1.2
Interest expense	(9.1)	(2.2)	(0.3)	—	(2.9)	(14.5)
Income tax (expense) benefit	0.2	(5.2)	(2.9)	0.9	0.4	(6.6)
Minority interest in net income	—	(1.1)	—	—	—	(1.1)
Segment income (loss) from continuing operations	(0.1)	11.1	4.7	(1.8)	(2.7)	11.2
Loss from discontinued operations	—	—	(1.1)	—	—	(1.1)
Segment net income (loss)	$ (0.1)	$ 11.1	$ 3.6	$(1.8)	$(2.7)	$ 10.1

(1) In order to comply with the Financial Accounting Standards Board (FASB) Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," 2001 information has been reclassified for comparative purposes.

C. Accounts Receivable and Inventories

Accounts receivable are net of an allowance for doubtful accounts of $32.7 million and $32.5 million at March 31, 2002 and December 31, 2001, respectively. The provision for doubtful accounts was $1.4 million and $2.9 million for the three months ended March 31, 2002 and 2001, respectively.

Inventories consist of:

(in thousands)	**March 31 2002**	December 31 2001
Finished goods	**$ 67,079**	$ 62,315
Work-in-process	**27,823**	24,847
Raw materials and purchased parts	**70,100**	69,351
Stores and supplies	**21,656**	20,457
	$186,658	$176,970

D. Property, Plant and Equipment

Property, plant and equipment consists of:

(In thousands)	March 31 2002	December 31 2001
Land and improvements	**$ 40,619**	$ 40,463
Buildings and improvements	**169,494**	167,391
Machinery and equipment	**1,495,041**	1,504,872
Uncompleted construction	**36,301**	40,639
	1,741,455	1,753,365
Less accumulated depreciation and facilities valuation allowance	**923,684**	918,448
	$ 817,771	$ 834,917

E. Commitments and Contingencies

Discontinued Defense Business — Contingencies

Federal Excise Tax and Other Matters Related to the Five-Ton Truck Contract
In 1995, the Company, the United States Army (“Army”), and the United States Department of Justice concluded a settlement of Harsco’s previously reported claims against the Army relating to Federal Excise Tax (“FET”) arising under a completed 1986 contract for the sale of five-ton trucks to the Army. On September 27, 1995, the Army paid the Company $49 million in accordance with the settlement terms. The Company released the Army from any further liability for those claims, and the Department of Justice released the Company from a threatened action for damages and civil penalties based on an investigation conducted by the Department’s Commercial Litigation Branch that had been pending for several years.

The settlement preserves the rights of the parties to assert claims and defenses under the Internal Revenue Code, and rights of the Army and the Company to claim certain amounts that may be owed by either party to reconcile possible underpayments or overpayments on the truck contract as part of the formal contract close-out process.

The settlement does not resolve the claim by the Internal Revenue Service (“IRS”) that, contrary to the Company’s position, certain cargo truck models sold by the Company should be considered to have gross vehicle weights in excess of the 33,000 pound threshold under FET law, are not entitled to an exemption from FET under any other theory, and therefore are taxable. In 1999, the IRS assessed an increase in FET of $30.4 million plus penalties and applicable interest currently estimated to be $12.4 million and $61.1 million, respectively. In October 1999, the Company posted an $80 million bond required as security by the IRS. This increase in FET takes into account offsetting credits of $9.2 million, based on a partial allowance of the Company’s $31.9 million claim that certain truck components are exempt from FET. The IRS disallowed in full the Company’s additional claim that it is entitled to the entire $52 million of FET (plus applicable interest currently estimated by the Company to be $55.0 million) the Company has paid on the five-ton trucks, on the grounds that such trucks qualify for the FET exemption applicable to certain vehicles specially designed for the primary function of off-highway transportation. In the event that the Company ultimately receives from the IRS a refund of tax (including applicable interest) with respect to which the Company has already received reimbursement from the Army, the refund would be allocated between the Company and the Army. In August 2000, the Company filed legal action against the Government in the U.S. Court of Federal Claims challenging the assessment and seeking a refund of all FET that the Company has paid on five-ton trucks. That action is proceeding and the court has scheduled trial for November 2002. Although there is risk of an adverse outcome, both the Company and the Army believe that the cargo trucks are not taxable. No recognition has been given in the accompanying financial statements for the Company's claims with the IRS.

The settlement agreement with the Army preserved the Company's right to seek reimbursement of after-imposed tax from the Army in the event that the cargo trucks are determined to be taxable, but the agreement limited the reimbursement to a maximum of $21 million. Additionally, in an earlier contract modification, the Army accepted responsibility for $3.6 million of the potential tax, bringing its total potential responsibility up to $24.6 million. As of September 30, 2000, the Army paid the Company this entire amount and the Company paid those funds to the IRS, subject to its pending refund claim. Thus, the Company has satisfied a portion of the disputed tax assessment. If the Company succeeds in its refund claim against the IRS, it will owe the Army the amount recovered that corresponds to the $24.6 million.

Even if the cargo trucks are ultimately held to be taxable, the Army's contribution of $24.6 million toward payment of the tax (but not interest or penalty, if any), would result in a net maximum liability for the Company of $5.8 million plus penalties and applicable interest currently estimated to be $12.4 million and $61.1 million, respectively. The Company believes it is unlikely that resolution of this matter will have a material adverse effect on the Company's financial position; however, it could have a material effect on quarterly or annual results of operations.

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 Sheet at March 31, 2002 and December 31, 2001 includes an accrual of $2.9 million and $3.0 million, respectively, for environmental matters. The amounts charged against pre-tax earnings related to environmental matters totaled $0.1 million and $0.3 million for the first three months of 2002 and 2001, respectively.

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

In the first quarter of 2000, the U.S. Environmental Protection Agency issued a Notice of Violation to the Company for violation of the Clean Air Act arising from slag dust emissions at one of the Company's mill services locations. The Agency is seeking abatement of dust emissions at the site and financial penalties. In cooperation with the mill and the Agency, the Company implemented dust abatement improvements to the site. The Agency and the Company have submitted a proposed Consent Decree to the United States District Court requiring the dust abatement improvements and payment of a $175,000 penalty. Upon approval by the Court, the Consent Decree will become final.

In January 2002, the New Jersey Department of Environmental Protection issued Notices of Civil Administrative Penalty Assessment to the Company for violations of the New Jersey Air Pollution Control Act. The Notices allege that the Company operated a slag processing plant in violation of the emission permit for control of slag dust. The Agency has assessed civil administrative penalties totaling approximately $298,000 and the Company has filed an appeal with the Agency. The Company ceased operations at the plant in the fourth quarter of 2001 for unrelated reasons.

Other

The Company has been named as one of many defendants (approximately 90 in most cases) in legal actions alleging personal injury from exposure to airborne asbestos. In their suits, the plaintiffs have named as defendants many manufacturers, distributors, and repairers of numerous types of equipment or products that involved any 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 product of the Company which might be alleged to cause asbestos exposure would have been purchased from a supplier. Based on scientific evidence, the Company believes that its products have never presented any harmful airborne asbestos exposure, and moreover, the type of asbestos contained in any component that was used in those products is protectively encapsulated in other materials and is not associated with the types of injuries alleged. Finally, in almost all of the complaints and depositions to date, the plaintiffs have failed to identify any contact that they have had with any products of the Company that might include an asbestos containing component.

To date, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in all cases that have proceeded to trial (approximately 400 dismissals). The Company has not paid any amounts in settlement of these cases, with the exception of two settlements totaling less than $10,000 paid by the insurance company prior to 1998. The Company's insurance carrier has paid all legal 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. As of March 31, 2002, there were approximately 21,150 open personal injury claims of which approximately 1,500 were filed in the quarter ended March 31, 2002.

The Company intends to continue its practice of vigorously defending these cases as they are listed for trial and expects the insurance carriers to continue to pay the legal costs and expenses. Management believes that the outcome of these cases will not have a material adverse effect on the Company's results of operations, cash flows or financial condition.

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 or results of operations of the Company.

F. Goodwill and Other Intangible Assets

As described in Note 1, "Summary of Significant Accounting Policies", to the Company's Form 10-K for the year ended December 31, 2001, the Company adopted SFAS 142, "Goodwill and Other Intangible Assets," on January 1, 2002. Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. Additionally, goodwill of a reporting unit will be reviewed for impairment when events and circumstances indicate the carrying amount may not be recoverable or on an annual basis if operations of a reporting unit have materially changed from the prior year. In accordance with SFAS 142 the Company intends to complete transitional goodwill impairment testing by June 30, 2002. No reclassification of goodwill to intangible assets was necessary as a result of the adoption of SFAS 142.

The following table illustrates the effects of adopting the new standard as it relates to net income, basic earnings per share (EPS) and diluted earnings per share (EPS) for the three months ended March 31, 2002 and 2001.

(In thousands, except per share amounts)	Net Income		Basic EPS		Diluted EPS	
	2002	2001	2002	2001	2002	2001
Reported net Income	$14,161	$10,141	$0.35	$0.25	$0.35	$0.25
Add: goodwill amortization, net of tax	—	2,612	—	0.07	—	0.07
Adjusted net income	$14,161	$12,753	$0.35	$0.32	$0.35	$0.32

The following table reflects the changes in carrying amounts of goodwill by segment for the three months ended March 31, 2002:

(In thousands)	Infrastructure	Mill Services	Gas and Fluid Control	Consolidated Totals
Balance as of December 31, 2001, net of accumulated amortization	$129,011	$185,279	$39,274	$353,564
Goodwill written off related to sale of business	—	—	(1,496)	(1,496)
Foreign currency translation	(2,474)	(1,798)	(18)	(4,290)
Balance as of March 31, 2002, net of accumulated amortization	$126,537	$183,481	$37,760	$347,778

Intangible assets, which are included in other assets, totaled $3.2 million, net of accumulated amortization of $6.3 million at March 31, 2002 and $4.2 million, net of accumulated amortization of $10.6 million at December 31, 2001. All intangible assets have been classified as finite-lived and are subject to amortization. The following chart reflects these intangible assets by major category.

	March 31, 2002		December 31, 2001	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements	$4,150	$2,958	$ 5,430	$ 4,057
Patents	3,849	2,579	7,111	5,764
Other	1,476	729	2,251	747
Total	$9,475	$6,266	$14,792	$10,568

Amortization expense for intangible assets was $238 thousand for the three months ended March 31, 2002. The following chart shows the estimated amortization expense for the next five fiscal years based on current intangible assets.

(In thousands)	2002	2003	2004	2005	2006
Estimated Amortization Expense	$943	$613	$547	$479	$366

G. Discontinued Operations

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which the Company adopted January 1, 2002. When a component of an entity is classified as "held for sale", SFAS 144 requires that the income statement for current and prior periods reflect the results of operations of that component in discontinued operations. The income or loss from discontinued operations should include impairment charges, to the extent necessary, to reduce the book value of the business to fair value less costs to sell. Fair value should be determined by using quoted market prices, when available, or other accepted valuation techniques. Additionally, assets and liabilities of the discontinued operations should be separately identified on the balance sheet.

In management's ongoing strategic effort to increase the Company's focus on industrial services, certain manufacturing operations have been identified as candidates for divestiture. Effective March 21, 2002, the Board of Directors authorized the sale of a certain business within the Gas and Fluid Control Segment. This business is being actively marketed and is expected to be sold within one year. Accordingly, this business has been included in discontinued operations for all periods presented. The net sales from discontinued operations for the three months ended March 31, 2002 and 2001 were $17.7 million and $21.6 million, respectively. These sales are excluded from revenues from continuing operations reported on the income statement. The loss from discontinued operations does not include any charges to reduce the book value of the business held for sale to its fair market value less cost to sell, since the fair value of the business exceeds the book value. The major classes of discontinued assets and liabilities included in the Condensed Consolidated Balance Sheet are as follows:

(In thousands)	March 31 2002	December 31 2001
ASSETS		
Cash and cash equivalents	**$ —**	$ 2
Accounts receivable, net	**10,199**	9,954
Inventories	**8,591**	6,841
Other current assets	**55**	116
Property, plant and equipment, net	**5,583**	5,571
Other assets	**—**	208
Total assets of discontinued operations	**$24,428**	$22,692
LIABILITIES		
Current maturities of long term debt	**$ 49**	$ 49
Accounts payable	**7,302**	6,953
Accrued compensation	**698**	512
Income taxes	**783**	768
Other current liabilities	**1,195**	1,235
Long-term debt	**51**	64
Total liabilities of discontinued operations	**$10,078**	$ 9,581

H. Reconciliation of Basic and Diluted Shares

(In thousands, except amounts per share)	Three Months Ended March 31 2002	2001
Income from continuing operations	**$15,005**	$11,186
Average shares of common stock outstanding used to compute basic earnings per common share from continuing operations	**40,041**	39,807
Additional common shares to be issued assuming exercise of stock options, net of shares assumed reacquired	**494**	72
Shares used to compute dilutive effect of stock options	**40,535**	39,879
Basic earnings per common share from continuing operations	**$ .37**	$ .28
Diluted earnings per common share from continuing operations	**$ .37**	$ .28

Options to purchase 201,556 shares and 1,395,189 shares were outstanding at March 31, 2002 and 2001, respectively, but were not included in the computation of diluted earnings per share because the effect was antidilutive.

I. Reclassifications

Certain reclassifications have been made to prior years' amounts to conform with current year classifications.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I — FINANCIAL INFORMATION

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

Forward-Looking Statements

The nature of the Company's operations 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. These include statements about our management confidence and strategies for performance; expectations for new and existing products, technologies, and opportunities; and expectations for market segment and industry growth, sales, cash flows, and earnings.

These factors include, but are not limited to: (1) changes in the worldwide business environment in which the Company operates, including general economic conditions, particularly in the mill services, infrastructure and industrial gas markets; (2) changes in currency exchange rates, interest rates, and capital costs; (3) changes in governmental laws and regulations, including taxes and import tariffs; (4) market and competitive changes, including pricing pressures, market demand and acceptance for new products, services, and technologies; (5) effects of unstable governments and business conditions in emerging economies; and (6) other risk factors listed from time to time in the Company's SEC reports. The Company does not intend to update this information and disclaims any legal liability to the contrary.

Liquidity and Capital Resources

The Company's overall liquidity and capital resources from continuing operations changed minimally from December 31, 2001. The seasonal effect of decreased cash flows resulted in a slight increase in total debt. However, debt reduction remains the principal financial objective for 2002. The Company's financial targets this year include significant reductions in debt through reduced working capital employed, substantial cash flows from the sale of underperforming assets and a reduction in capital spending.

(Dollars are in millions)	March 31 2002	December 31 2001	Increase/ (Decrease)
Current assets	**$ 707.1**	$ 699.2	$ 7.9
Current liabilities	**414.6**	465.2	(50.6)
Working capital	**$ 292.5**	$ 234.0	$ 58.5
Current ratio	**1.7:1**	1.5:1	
Notes payable and current maturities	**$ 25.6**	$ 42.0	$(16.4)
Long-term debt	**741.2**	720.1	21.1
Total debt	**766.8**	762.1	4.7
Total equity	**690.5**	686.2	4.3
Total capital	**$1,457.3**	$1,448.3	$ 9.0
Total debt to total capital	**52.6%**	52.6%	

Working Capital Position

The change in the Company's working capital position and current ratio during the first three months of 2002 is due principally to a reduction in current liabilities of $50.6 million, including a reduction in accounts payable and short-term borrowings of $24.0 million and $14.0 million, respectively. Also contributing to the change in working capital is a $7.9 million increase in current assets. The increase in current assets relates principally to a $9.7 million increase in inventories to meet current and anticipated customer demand. Although current assets increased from December levels, receivables and inventories from continuing operations were $25.5 million and $4.7 million lower, respectively, than at March 31, 2001.

Cash Investing and Financing Activities

While debt as a percent of total capital remained unchanged from year-end 2001, the Company continues to expect a significant reduction in debt levels as the year progresses. The Company realized $10.5 million in cash from asset sales during the first quarter of 2002 and estimates an additional $15 million to $40 million in cash from asset sales during the second quarter of 2002. The Company has set a 2002 target of $150 million for discretionary cash flows, including $50 million of cash from asset sales. The Company plans to use $100 million of the targeted cash flow to reduce debt and $50 million to grow its services-related business.

Long-term debt increased slightly in the first quarter of 2002, principally as a result of the seasonality of cash flows. Capital investments for the first quarter of 2002 were $31.3 million, down 7% from the first three months of 2001. Investments were made predominantly in the services businesses.

The Company's history of strategic acquisitions; targeted capital investments; share repurchases, when appropriate; and cash dividends, paid at the same or increased rates for the 208th consecutive quarter in February 2002, demonstrate the Company's continued commitment to creating value through strategic investments and return of capital to stockholders.

Financial Statistics from Continuing Operations

	For the Three Months Ended March 31 2002	**For the Three Months Ended March 31 2001**
Harsco stock price high-low	**$39.76 - $32.00**	$28.48 - $23.60
Annualized return on average equity	**8.7%**	6.7%
Annualized return on average assets	**6.8%**	6.2%
Annualized return on average capital	**6.3%**	5.4%

The Company's higher annualized return on average equity was due to higher income in the first three months of 2002 compared with the first three months of 2001. Higher annualized returns on average assets and capital were due to the combination of higher income and lower assets and capital, respectively. Assets and capital were affected in 2002 by the Company's 2001 debt reduction strategy, which included the sale of certain non-core assets. Total debt of $766.8 million at March 31, 2002 is almost $100 million less than the March 31, 2001 level of $863.0 million. The Company's book value per share increased slightly to $17.21 per share at March 31, 2002 from $17.16 at December 31, 2001.

The Company expects future improvements in return on capital as a result of the 2001 implementation of the Stern Stewart Economic Value Added (EVA®) program. The EVA® program is now used for financial measurement, decision making, and incentive compensation.

Cash from Operating Activities

(In millions)	**For the Three Months Ended March 31 2002**	**For the Three Months Ended March 31 2001**
Net cash provided by operations:	**$9.0**	$2.6

Operating cash flows were almost $6.5 million greater in the first quarter of 2002 than the first quarter of 2001. The increase in cash from operating activities is due principally to slower accounts receivable growth as well as the timing of accounts receivable receipts totaling $16.8 million, offset by a decrease in cash flows from a change in inventories of $6.6 million.

Credit and Equity Financing Facilities

The Company has various credit facilities and commercial paper programs available for use throughout the world. These facilities and programs are explained in detail in the Company's Form 10-K for the year ended December 31, 2001. The following chart illustrates the amounts outstanding on credit facilities and commercial paper programs and available credit at March 31, 2002. The Company limits the aggregate commercial paper and syndicated credit facility borrowings at any one time to a maximum of $450 million.

(in millions)	Facility Limit at March 31, 2002	Outstanding Balance at March 31, 2002	Available Credit at March 31, 2002
U.S. commercial paper program	$350.0	$189.4	$160.6
Euro commercial paper programs	282.3	46.0	236.3
Bilateral credit facilities	100.0	27.8	72.2
Totals at March 31, 2002	$732.3	$263.2	$469.1

A Form S-3 shelf registration is on file with the Securities and Exchange Commission for the possible issuance of up to an additional $200 million of new debt securities, preferred stock or common stock. The Company is not committed to issuing these securities.

Credit Ratings and Outlook
The Company's outstanding long-term notes (both U.S. and International) are rated A- by Standard & Poor's, A- by Fitch and A-3 by Moody's. The Company's U.S.-based commercial paper is rated A-2 by Standard & Poor's, F-2 by Fitch and P-2 by Moody's, and the Company's London-based commercial paper program is rated A-2 by Standard & Poor's and P-2 by Moody's.

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 to continue to reduce debt, invest strategically in high-return projects, and to pay cash dividends as a means to enhance shareholder value. The Company intends to use future discretionary cash flows principally for debt reduction.

Results of Operations
First Quarter of 2002 Compared with First Quarter of 2001

(Dollars are in millions, except per share)	Three Months Ending March 31 2002	Three Months Ending March 31 2001	Amount Increase (Decrease)	Percent Increase (Decrease)
Revenues from continuing operations	**$458.6**	$505.0	$(46.4)	(9)%
Cost of services and products sold	**344.5**	385.1	(40.6)	(11)
Selling, general and administrative expenses	**78.4**	81.1	(2.7)	(3)
Other expense	**1.3**	3.8	(2.5)	(65)
Equity in income (loss) of affiliates, net	**0.2**	(2.2)	2.4	109
Interest Expense	**11.2**	14.5	(3.3)	(23)
Net income	**14.2**	10.1	4.1	40
Diluted earnings per common share	**.35**	.25	.10	37

Summary Analysis of Results

The Company continues to see the effect of the downturn in the domestic manufacturing sector that began in the fourth quarter of 2000 and resulted in a recessionary environment in 2001. This has negatively affected the Company's revenues during the first quarter of 2002 compared with the first quarter of 2001. Costs decreased as a result of decreased revenues; stringent cost controls, process improvements and reorganization efforts; and the elimination of $4.0 million ($2.7 million after-tax) in goodwill amortization as a result of implementation SFAS 142. This decrease in amortization expense was more than offset by increased pension expense of $4.9 million ($3.3 million after-tax) due to financial market conditions. The Company's continuing efforts towards debt reduction (almost $100 million since March 31, 2001) combined with lower interest rates reduced pre-tax interest expense by $3.3 million and improved net income by $2.3 million compared with the first quarter of 2001. Net income, although higher than the 2001 comparable period, was also negatively affected by $1.1 million from foreign exchange translation due to the strong U.S. dollar.

Comparative Analysis of Consolidated Results

Revenues from Continuing Operations
Revenues from continuing operations for the first quarter of 2002 were down 9% from last year's comparable period. This is due to the continued downturn in the domestic manufacturing sector and reduced steel mill services volume in North America. On a comparative basis, sales were negatively affected by $10.5 million related to the unfavorable effect of foreign currency translation.

Cost of Services and Products Sold
Cost of services and products sold for the first quarter of 2002 decreased from the first quarter of 2001, principally due to decreased revenue and the elimination of $4.0 million in goodwill amortization as a result of implementing SFAS 142. Additionally, the Company's stringent cost controls, process improvements and reorganization efforts continue to contribute towards the decrease of these costs.

Selling, General and Administrative Expenses
Selling, general and administrative expenses for the first quarter of 2002 decreased from the first quarter of 2001 due principally to decreased compensation expense (related to restructuring and businesses sold during 2001) and decreased provisions for uncollectible accounts receivable.

Other Expense
The Company incurred $1.3 million of net other expense in the first quarter of 2002 compared with $3.8 million in the first quarter of 2001. This income statement classification principally includes impaired asset write-downs, employee termination benefits costs and costs to exit activities, offset by net gains on the disposal of non-core assets.

Expenses for the first quarter of 2002 include $1.0 million of employee termination benefits expense, principally in the Mill Services and Gas and Fluid Control Segments related to operations in the United States and Europe.

Expenses for the first quarter of 2001 included $2.6 million of employee termination benefits expense, principally in the Mill Services and Infrastructure Segments relating to operations in the United States and Europe. Additionally, $1.2 million of expense was incurred due to impaired asset write-downs, principally in the United States. These expenses were partially offset by $0.8 million in gains resulting from the sales of non-core assets in the United States.

Employee termination benefit costs consist principally of severance arrangements to employees terminated as a result of management reorganization actions. Under these reorganization actions, the Company and its management have established and approved specific plans of termination. The affected employees have been notified prior to recognition of related provisions. The following tables provide details related to reorganization actions:

Employee Termination Benefits Costs and Payments

(In millions)

	2002	2001	
Original reorganization action period	Three Months Ending March 31	Three Months Ending March 31	April 1 - Dec 31
Employee termination benefits expense	**$ 1.0**	$ 2.6	$ 8.0
Disbursements:[1]			
In 2001	**—**	(2.6)	(4.0)
In 2002	**(0.5)**	—	(1.2)
Total disbursements	**(0.5)**	(2.6)	(5.2)
Remaining payments as of March 31, 2002[2]	**$ 0.5**	$ —	$ 2.8

(1) Disbursements are categorized according to the original reorganization action period to which they relate (2002 or 2001).
(2) Remaining payments are categorized according to the original reorganization action period to which they relate (2002 or 2001).

Employee Terminations — Number of Employees

	2002	2001	
Original reorganization action period	Three Months Ending March 31	Three Months Ending March 31	April 1 - Dec 31
Employees affected by reorganization actions	**58**	259	656
Employee Terminations:			
In 2001	**—**	(259)	(502)
In 2002	**(57)**	—	(62)
Total terminations	**(57)**	(259)	(564)
Remaining terminations as of March 31, 2002	**1**	—	92

Equity in Income (Loss) of Affiliates
Equity in income (loss) of affiliates increased from a $2.2 million loss in the first quarter of 2001 to income of $0.2 million in the first quarter of 2002. This relates principally to $2.7 million of pre-tax losses during the first quarter of 2001 associated with the Company’s S3Networks investment. The Company exited this investment in April 2001.

Interest Expense
Interest expense was significantly lower than last year’s comparable period due to decreased borrowings and lower interest rates.

Net Income and Earning Per Share
Net income and earnings per share for the first quarter of 2002 were above last year’s comparable period despite decreased revenue due to the factors previously discussed. Additionally, the effective income tax rate for continuing operations for the first quarter of 2002 was 31%, down from 35% in the first quarter of 2001. The decrease in the income tax rate is due to lower effective tax rates on both domestic and international earnings. On a comparative basis, this change in the effective income tax rate resulted in a savings of $1.0 million in taxes related to continuing operations.

Segment Analysis

Infrastructure Segment

(Dollars are in millions)	Three Months Ending March 31 2002	Three Months Ending March 31 2001	Amount Increase (Decrease)	Percent Increase (Decrease)
Sales from continuing operations	**$198.2**	$215.1	$(16.9)	(8)%
Operating income from continuing operations	**11.3**	8.2	3.1	38
Segment net income (loss)	**3.3**	(0.1)	3.4	3400

The quarter over quarter sales decrease for the Infrastructure Segment relates to decreased sales of railway track maintenance equipment and industrial grating due to lower capital spending by United States railroads and reduced manufacturing activity in the United States, respectively. Decreased volume in both the domestic and international scaffolding and access businesses affected 2002 as compared with 2001.

Operating income of the Infrastructure Segment increased in the first quarter of 2002 as compared with the first quarter of 2001, despite decreased sales. This was due to improved margins in 2002 for certain railway track maintenance equipment sales and a lower loss in 2002 for the bridge decking business that was divested in January 2002. In 2002, the benefit of the elimination of $1.1 million in goodwill amortization as a result of the implementation of SFAS 142 was more than offset by $2.1 million of increased pension expense.

The segment net income in 2002 compared to a net loss in 2001 relates to the factors noted above as well as decreased interest expense due to decreased debt and lower interest rates.

Mill Services Segment

(Dollars are in millions)	Three Months Ending March 31 2002	Three Months Ending March 31 2001	Amount (Decrease)	Percent (Decrease)
Sales from continuing operations	**$176.8**	$183.1	$(6.3)	(3)%
Operating income from continuing operations	**17.7**	18.5	(0.8)	(4)
Segment net income (loss)	**10.4**	11.1	(0.7)	(6)

Despite improved international mill services and domestic abrasives and roofing granules business results, first quarter 2002 sales continued to be negatively affected by foreign currency translation and difficult market conditions for the Company's North American mill services as compared with the first quarter of 2001. The effect of foreign currency translation reduced the 2002 period sales by $8.5 million.

Operating income of the Mill Services Segment for the first quarter of 2002 was slightly below the comparable period in 2001. The decrease in operating income was due primarily to $1.3 million in foreign currency translation effects. In 2002, the benefit of the elimination of $2.3 million in goodwill amortization as a result of the implementation of SFAS 142 was substantially offset by $2.1 million of increased pension expense.

Net income of the Mill Services Segment for the first quarter of 2002 was slightly below the comparable period in 2001 due to the factors previously discussed.

Gas and Fluid Control Segment

(Dollars are in millions)	Three Months Ending March 31 2002	2001	Amount (Decrease)	Percent (Decrease)
Sales from continuing operations	**$83.6**	$106.4	$(22.8)	(21)%
Operating income from continuing operations	**4.2**	7.9	(3.7)	(47)
Segment net income (loss)	**2.1**	3.6	(1.5)	(42)

First quarter 2002, sales, operating income and net income of the Gas and Fluid Control Segment were below the comparable period of 2001 due to a continued downturn in the United States manufacturing sector that started in the fourth quarter of 2000 and resulted in a recessionary environment in 2001. This depressed demand, as well as pricing pressure across many product lines and an unusually warm winter in the United States, affected demand for gas control and containment equipment product lines.

Services and Engineered Products Analysis

The Company is a diversified services and engineered products company. Sales, operating income, and EBITDA for the first quarter of 2002 and 2001 are presented in the following table:

(Dollars are in millions)	Three Months Ended March 31, 2002		Three Months Ended March 31, 2001	
	Amount	Percent	Amount	Percent
Sales from Continuing Operations				
Services	**$309.9**	**68%**	$325.1	64%
Engineered products	**148.7**	**32**	179.5	36
Total sales	**$458.6**	**100%**	$504.6	100%
Operating Income from Continuing Operations				
Services	**$ 23.6**	**71%**	$ 26.6	77%
Engineered products	**9.6**	**29**	8.0	23
Total segment operating income	**$ 33.2**	**100%**	$ 34.6	100%
EBITDA* from Continuing Operations				
Services	**$ 55.4**	**78%**	$ 61.5	80%
Engineered products	**15.6**	**22**	15.5	20
Total segment EBITDA	**$ 71.0**	**100%**	$ 77.0	100%

* Earnings before interest, income taxes, minority interest, depreciation and amortization (EBITDA) is not a measure of performance under generally accepted accounting principles, however, the Company and the investment community consider it an important calculation.

First quarter 2002 sales, operating income and EBITDA for services decreased from the comparable period in 2001. This is due to decreases in the Company's domestic mill services business and its domestic and international scaffolding and access businesses, as previously discussed.

First quarter 2002 sales for engineered products decreased from the comparable period in 2001 due to continued soft market conditions affecting demand for most manufactured products. Operating income and EBITDA increased from the comparable period in 2002 due to strengthening in the railway track maintenance and abrasives and roofing granules businesses as previously discussed.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I — FINANCIAL INFORMATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to foreign currency risk in its international operations. The Company conducts business in 40 countries. Approximately 53% and 49% of the Company's sales from continuing operations for the three months ended March 31, 2002 and 2001, respectively, were derived from the Company's operations outside the United States. Compared to the corresponding period in 2001, the values of the following currencies decreased in relation to the U.S. dollar in the first three months of 2002, negatively impacting the Company's sales and income:

• Brazilian real	Declined	16%
• South African rand	Declined	45%
• British pound sterling	Declined	2%
• euro	Declined	5%

Such foreign currency exposures increase the risk of income statement, balance sheet and cash flow volatility which could result in a material impact to the Company's financial position or results of operations in the future, if the above currencies or others would continue to weaken in relation to the U.S. dollar.

To illustrate the effect of foreign currency exchange rate changes due to the strengthening of the U.S. dollar, in the first three months of 2002 sales would have been approximately 2.3% or $10.5 million greater using the average exchange rates for the first three months of 2001. A similar comparison for the first quarter of 2001 would have increased sales approximately 2.4% or $12 million if the average exchange rates for the first quarter of 2000 would have remained the same in 2001.

At March 31, 2002 and 2001 currency changes resulted in assets and liabilities denominated in local currencies being translated into fewer U.S. dollars than at the prior year-end. This resulted in decreased net assets of $3.6 million and $17.6 million at March 31, 2002 and 2001, respectively.

The Company seeks to reduce exposures to foreign currency transaction fluctuations through the use of forward exchange contracts. At March 31, 2002, these contracts amounted to $3.1 million and all mature within 2002. 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.

The Company's cash flows and earnings are subject to changes in interest rates. Total debt of $766.9 million as of March 31, 2002 was approximately 40.7% at variable rates of interest. The weighted average interest rate of total debt was approximately 5.24%. At current debt levels, a one-percentage increase/decrease in interest rates would increase/decrease interest expense by approximately $3.1 million per year.

An economic slowdown in the United States that began in the second half of 2000 resulted in a recessionary environment during 2001. Although there are certain current indications of economic improvement, on a comparative basis, the Company still suffered reduced demand for its manufactured products and mill services in North America in the first quarter of 2002. There is a risk that the Company's future results of operations or financial condition could be adversely affected if the United States steel industry and manufacturing sector problems continue. The future financial impact on the Company associated with these risks cannot be estimated.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information on legal proceedings is included under Part I, Item 1, Footnote E labeled “Commitments and Contingencies.”

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

At the annual meeting of stockholders held on April 30, 2002 in Camp Hill, Pennsylvania, one member of the Board of Directors, G. D. H. Butler, Senior Vice President – Operations of the Company, was reelected to a term expiring in 2004 under the classified Board structure enacted at the 1986 Annual Meeting. In addition, four members of the Board of Directors were reelected to terms expiring in 2005 under the classified Board structure enacted at the 1986 Annual Meeting. They include S. D. Fazzolari, Senior Vice President, Chief Financial Officer and Treasurer of the Company; C. F. Scanlan, President and Chief Executive Officer of The Health Alliance of Pennsylvania; A. J. Sordoni, III, Chairman of Sordoni Construction Services, Inc.; and J. P. Viviano, Retired Vice Chairman of Hershey Foods Corporation.

The Board of Directors voting tabulation is as follows:

Name	For No. of Shares	Withheld No. of Shares	Broker No-Votes No. of Shares
G. D. H. Butler	35,694,603	434,581	—
S. D. Fazzolari	35,699,959	429,225	—
C. F. Scanlan	35,556,871	572,313	—
A. J. Sordoni, III	35,697,708	431,476	—
J. P. Viviano	35,707,690	421,494	—

Shareholders approved the appointment of PricewaterhouseCoopers LLP, as independent accountants to audit the financial statements of the Company for the fiscal year ending December 31, 2002 by the following vote:

For No. of Shares	Against No. of Shares	Abstentions No. of Shares	Broker No-Votes No. of Shares
35,427,956	514,455	186,772	—

ITEM 5. OTHER INFORMATION

DIVIDEND INFORMATION

On March 21, 2002, the Board of Directors declared a quarterly cash dividend of 25 cents per share, payable May 15, 2002, to shareholders of record on April 15, 2002.

ITEM 6(a). EXHIBITS

None

ITEM 6(b). REPORTS ON FORM 8-K

There were no reports filed on Form 8-K during the first quarter ending March 31, 2002.

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 May 10, 2002

/S/ Salvatore D. Fazzolari

Salvatore D. Fazzolari
Senior Vice President, Chief
Financial Officer and Treasurer

DATE May 10, 2002

/S/ Stephen J. Schnoor

Stephen J. Schnoor
Vice President and Controller