HARSCO CORP
Form 10-K405
March 21, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2001
	or
o	**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 or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification number)*
Camp Hill, Pennsylvania	**17001-8888**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code

717-763-7064

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

Title of each class	Name of each exchange on which registered
Common stock, par value $1.25 per share	New York Stock Exchange Pacific Stock Exchange

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

None
(Title of class)

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 þ No o

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

The aggregate market value of the Company s voting stock held by non-affiliates of the Company as of February 28, 2002 was $1,486,970,852.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Classes	Outstanding at February 28, 2002
Common stock, par value $1.25 per share	40,058,482
Preferred stock purchase rights	40,058,482

Documents Incorporated by Reference

Selected portions of the Notice of 2002 Meeting and Proxy Statement are Incorporated by Reference in Part III of this Report.

The Exhibit index (Item No. 14) located on pages 56 to 59 incorporates several documents by reference as indicated therein.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES

PART I

Item 1. ***Business***

(a) Description of Business

Harsco Corporation (the Company) is a diversified, multinational provider of market leading industrial services and engineered products. The Company s operations fall into three operating segments: Infrastructure, Mill Services, and Gas and Fluid Control. The Company has over 400 locations in 40 countries, including the United States. The principal lines of business are: scaffolding, forming, and shoring and other access services to the worldwide industrial maintenance, civil engineering, and non-residential construction markets; outsourced, on-site mill services that are provided to steel and non-ferrous metal producers in over 30 countries; railway track maintenance services and equipment that are provided to railroad customers worldwide, gas control and containment products for customers worldwide; and several other lines of business including, but not limited to, industrial grating products, industrial pipe fittings, industrial abrasives and roofing granules.

The Company reports segment information using the management approach . The management approach is based on the way management organizes the segments within the enterprise for making operating decisions and assessing performance. The Company s reportable segments are identified based upon differences in products, services, and markets served.

In 2001, 2000, and 1999, the United States contributed sales of $1.1 billion, $1.2 billion, and $1.1 billion equal to 52%, 58%, and 64% of total sales, respectively. In 2001, 2000, and 1999 the United Kingdom contributed sales of $389.0 million, $286.5 million, and $156.6 million equal to 18%, 14%, and 9% of total sales, respectively. The operations of the Company in any one country, except the United States, did not account for more than 10% of sales in 1999. No single customer represented 10% or more of the Company s sales during 2001, 2000, and 1999. There are no significant intersegment sales.

(b) Financial Information about Industry Segments

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

(c) Narrative Description of Business

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

Infrastructure

Major product classes in this segment are access services and equipment, railway track maintenance services and equipment, and industrial grating.

The Company s access services and equipment businesses serve the non-residential construction, civil engineering, and industrial maintenance markets throughout the world with a full range of scaffolding, powered access equipment, concrete forming, shoring equipment, and other construction-related services and products that are principally rented to customers. Along with steel and aluminum support systems, the Company also provides design engineering services, on-site installation, and equipment management services.

The Company s railway track maintenance services provide high technology comprehensive track maintenance and new track construction support to railroad customers worldwide. The railway track maintenance equipment product class includes specialized track maintenance equipment used by private and government-owned railroads and urban transit systems worldwide. The equipment manufactured by the Company includes a comprehensive range of specially-designed systems used in the construction and maintenance of track and railbeds.

The Company manufactures a varied line of industrial grating products at several plants in North America. The Company produces a full range of riveted, pressure-locked and welded grating in steel, aluminum and fiberglass, used mainly in industrial flooring, safety, and security applications for power, paper, chemical, refining and processing applications.

This segment also includes the production of commercial and industrial boilers and hot water heaters; and blenders, dryers and mixers for the chemical and food processing industries.

For 2001, the Infrastructure Segment s percentage of consolidated net sales was 42%.

Mill Services

This segment includes Heckett MultiServ, the world s largest provider of outsourced, on-site mill services to the international steel and metals industries. Heckett MultiServ s experience, financial resources, and broad geographic coverage are important qualities to leading metals producers, who increasingly look to Heckett MultiServ s specialized services and technologies to enhance their productivity, product quality, environmental compliance and commercial competitiveness.

Heckett MultiServ provides its services on a long-term contract basis, supporting each stage of the metal-making process from initial raw material handling to post-production by-product processing and on-site recycling. Working exclusively as a specialized, high-value-added services provider, Heckett MultiServ does not trade steel or scrap, or take ownership of its customers raw materials or finished products. The Company s multi-year contracts, with estimated future revenues of $3.0 billion at December 31, 2001, provide the Company with a substantial financial base of long-term revenues. Over 50% of these revenues are expected to be recognized by December 31, 2004. The remaining revenues are expected to be recognized principally between January 1, 2005 and December 31, 2010. Heckett MultiServ s geographic reach to more than 160 mills in over 30 countries, and its increasing range of services, enhance the Company s financial and operating balance.

The Company s flame and on-site recycling technologies along with computerized scrap handling are several examples of the specialized services the Company provides. These highly specialized services and technologies include: scarfing, ferrocut, carbofer, briquetting and scrap management. The Company provides in-plant transportation and other specialized services, including slab management systems, general plant services, and other recycling technology. Other services provided include on-site metal reclamation; slag processing, marketing and utilization; raw material management and handling; by-product recovery and recycling; and finished product handling and transport. Highly specialized recovery and cleaning equipment, installed and operated on the property of steel producers, together with standard material handling equipment, are employed to reclaim metal and handle material. The customer uses this reclaimed metal as a raw material in its steel production process. The nonmetallic residual slag is graded into various sizes at on-site Company-owned processing facilities and then sold commercially. It is used as an aggregate material in asphalt paving applications, railroad ballast and building blocks. Similar services are also provided to non-ferrous metal industries, such as aluminum, copper, and nickel.

This segment also provides roofing granules and industrial abrasives, which are produced from utility coal slag and natural rock materials at a number of locations throughout the United States. The Company s Black Beauty abrasives are used for industrial surface preparation, such as rust removal and cleaning of bridges, ship hulls, and various structures. Roofing granules are sold to residential roofing shingle manufacturers, primarily for the replacement market.

For 2001, the Mill Services Segment s percentage of consolidated net sales was 35%.

Gas and Fluid Control

The segment s manufacturing and service facilities in the United States, Europe, Australia, Malaysia, and China comprise an integrated manufacturing network for gas containment and control products. This global operating presence and product breadth provide economies of scale and multiple code production capability, enabling the operating group to serve as a single source to the world s leading industrial gas producers and distributors, as well as regional and local customers on a worldwide basis.

Gas containment products include cryogenic gas storage tanks, high pressure and acetylene cylinders, propane tanks and composite vessels for industrial and commercial gases and other products. Gas control products include valves and regulators serving a variety of markets, including the industrial gas, commercial refrigeration, life support, and outdoor recreation industries.

The segment also provides custom-designed and manufactured air-cooled heat exchangers for the natural gas industry, and is a major supplier of industrial pipe fittings and related products for the plumbing, hardware and energy industries.

For 2001, the Gas and Fluid Control Segment s percentage of consolidated net sales was 23%.

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(1)(i) The products and services of Harsco include a number of classes. The product classes that contributed 10% or more as a percentage of consolidated net sales in any of the last three fiscal years are set forth in the following table:

	2001	2000	1999
Mill Services	32%	35%	39%
Access Services and Equipment	28%	21%	10%
Gas Control and Containment Equipment	23%	27%	24%

(1)(ii) New products and services are added from time to time; however, in 2001 none required the investment of a material amount of the Company s assets.

(1)(iii) The manufacturing requirements of the Company s operations are such that no unusual sources of supply for raw materials are required. The raw materials used by the Company include principally steel and, to a lesser extent, aluminum which are usually readily available.

(1)(iv) While the Company has a number of trademarks, patents and patent applications, it does not consider that any material part of its business is dependent upon them.

(1)(v) The Company furnishes building products and materials and certain industrial services that are seasonal in nature. In 2001, such operations accounted for 6.5% of total sales.

(1)(vi) The practices of the Company relating to working capital are similar to those practices of other service providers or manufacturers servicing mainly industrial and commercial markets.

(1)(vii) No material part of the business of the Company is dependent upon a single customer or a few customers, the loss of any one of which would have a material adverse effect upon the Company.

(1)(viii) Backlog of orders was $215.9 million and $258.9 million as of December 31, 2001 and 2000, respectively. It is expected that approximately 20% of the total backlog at December 31, 2001, will not be filled during 2002. There is no significant seasonal aspect to the Company s backlog. 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. Contracts for the Mill Services Segment are also excluded from the total backlog. These contracts have estimated future revenues of $3.0 billion at December 31, 2001.

(1)(ix) At December 31, 2001, the Company had no material contracts that were subject to renegotiation of profits or termination at the election of the U.S. Government.

(1)(x) The various businesses in which the Company operates are highly competitive and the Company encounters active competition in all of its activities from both larger and smaller companies who produce the same or similar products or services or who produce different products appropriate for the same uses.

(1)(xi) The expense for product development activities was $4.0 million, $5.7 million, and $7.8 million in 2001, 2000, and 1999, respectively.

(1)(xii) The Company has become subject, as have others, to stringent air and water quality control legislation. In general, the Company has not experienced substantial difficulty in complying with these environmental regulations in the past and does not anticipate making any material capital expenditures for environmental control facilities. While the Company expects that environmental regulations may expand, and its expenditures for air and water quality control will continue, it cannot predict the effect on its business of such expanded regulations. For additional information regarding environmental matters see Note 10, Commitments and Contingencies, to the Consolidated Financial Statements included in Part II, Item 8, Financial Statements and Supplementary Data .

(1)(xiii) As of December 31, 2001, the Company had approximately 18,700 employees.

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(d) Financial Information about Foreign and Domestic Operations and Export Sales

Financial information concerning foreign and domestic operations is included in Note 14, Information by Segment and Geographic Area, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data . Export sales totaled $84.3 million and $104.6 million in 2001 and 2000, respectively.

Item 2. ***Properties***

Information as to the principal plants owned and operated by the Company is summarized in the following table:

Location	Floor Space (Sq. Ft.)	Principal Products
Infrastructure		
Ludington, Michigan	159,000	Railroad Equipment
Fairmont, Minnesota	312,000	Railroad Equipment
West Columbia, South Carolina	224,000	Railroad Equipment
Brendale, Australia	20,000	Railroad Equipment
Nashville, Tennessee	246,000	Grating
Leeds, Alabama	51,000	Grating
Channelview, Texas	86,000	Grating
Queretaro, Mexico	63,000	Grating
Marion, Ohio	135,000	Access Equipment Maintenance
Dosthill, England	468,000	Forms
East Stroudsburg, Pennsylvania	161,000	Process Equipment
Mill Services		
Moundsville, West Virginia	12,000	Roofing Granules/Abrasives
Drakesboro, Kentucky	41,000	Roofing Granules
Gary, Indiana	19,000	Roofing Granules/Abrasives
Gas and Fluid Control		
West Jefferson, Ohio	187,000	Pipe Fittings
Crowley, Louisiana	260,000	Pipe Fittings
Vanastra, Ontario, Canada	60,000	Pipe Fittings
Port of Catoosa, Oklahoma	135,000	Heat Exchangers
Sapulpa, Oklahoma	79,000	Heat Exchangers
Lockport, New York	104,000	Valves
Niagara Falls, New York	66,000	Valves
Washington, Pennsylvania	112,000	Valves
Jesup, Georgia	87,000	Propane Tanks
Jesup, Georgia	65,000	Propane Tanks
Jesup, Georgia	63,000	Cryogenic Storage Vessels
Bloomfield, Iowa	48,000	Propane Tanks
West Jordan, Utah	36,000	Propane Tanks
Fremont, Ohio	69,000	Propane Tanks
Pomona, California	56,000	Composite Pressure Vessels
Harrisburg, Pennsylvania	245,000	Gas Cylinders
Huntsville, Alabama	220,000	Acetylene Tanks
Theodore, Alabama	305,000	Cryogenic Storage Vessels
Husum, Germany	61,000	Cryogenic Storage Vessels
Shah Alam, Malaysia	34,000	Cryogenic Storage Vessels
Shah Alam, Malaysia	29,000	Cryogenic Storage Vessels
Kosice, Slovakia	125,000	Cryogenic Storage Vessels
Beijing, China	134,000	Cryogenic Storage Vessels

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The Company also operates the following plants which are leased:

Location	Floor Space (Sq. Ft.)	Principal Products	Expiration Date of Lease
Infrastructure			
Eastwood, England	21,000	Railroad Equipment	10/31/13
Danbury, Connecticut	16,000	Railroad Equipment	11/30/03
Maldon, England	348,000	Aluminum Access Products	09/28/17
DeLimiet, Netherlands	42,000	Powered Access Equipment	12/31/04
Marlboro, New Jersey	30,000	Grating	03/31/06
Tulsa, Oklahoma	20,000	Grating	01/31/11
Gas and Fluid Control			
Cleveland, Ohio	50,000	Brass Castings	09/30/05

The Company operates from a number of other plants, branches, warehouses and offices in addition to the above. The Company has over 160 locations related to mill services in over 30 countries; however since these facilities are on the property of the steel mill being serviced they are not listed. The Company considers all of its properties at which operations are currently performed, to be in satisfactory condition.

Item 3. ***Legal Proceedings***

Information regarding legal proceedings is included in Note 10, Commitments and Contingencies, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data .

Item 4. ***Submission of Matters to a Vote of Security Holders***

There were no matters that were submitted during the fourth quarter of the year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

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PART II

Item 5. ***Market for the Registrant s Common Stock and Related Stockholder Matters***

Harsco common stock is traded on the New York, Pacific, Boston, and Philadelphia Stock Exchanges under the symbol HSC. At the end of 2001, there were 39,984,849 shares outstanding. In 2001, the stock traded in a range of $23.60 $36.00 and closed at $34.30 at year-end. At December 31, 2001 there were approximately 18,000 shareholders. For additional information regarding Harsco common stock market price and dividends declared, see the Common Stock Price and Dividend Information under Part II, Item 8, Financial Statements and Supplementary Data .

Item 6. ***Selected Financial Data***
Five-Year Statistical Summary

(In thousands, except per share information)	2001	2000(a)	1999	1998	1997
Income Statement Information					
Net sales(b)	$2,107,111	$2,003,387	$1,749,888	$1,765,546	$1,659,729
Income from continuing operations before interest, income taxes, and minority interest	161,763	192,708	169,736	191,901	179,888
Income from continuing operations	71,725	96,803	90,713	107,513	100,400
Income from discontinued defense business					28,424(c)
Gain on disposal of discontinued defense business					150,008
Net income	71,725	96,803	90,713	107,513	278,832
Financial Position and Cash Flow Information					
Working capital	$ 241,393	$ 190,236	$ 182,439	$ 112,619	$ 341,160
Total assets	2,090,766	2,180,948	1,659,823	1,623,581	1,477,188
Long-term debt	720,197	774,450	418,504	309,131	198,898
Total debt	761,968	836,745	455,111	363,738	225,375
Depreciation and amortization	176,531	159,099	135,853	131,381	116,539
Capital expenditures	156,073	180,048	175,248	159,816	143,444
Cash provided by operating activities	240,601	259,448	213,953	189,260	148,541
Cash provided (used) by investing activities	(125,213)	(459,052)	(194,674)	(233,490)	196,545
Cash provided (used) by financing activities	(99,190)	210,746	(8,928)	(134,324)	(167,249)
Ratios					
Return on net sales(1)	3.4%	4.8%	5.2%	6.1%	6.0%
Return on average equity(2)	10.6%	14.7%	13.9%	14.3%	15.1%
Return on average assets(3)	7.8%	10.0%	10.7%	12.9%	14.3%
Current ratio	1.5:1	1.4:1	1.4:1	1.2:1	1.9:1
Total debt to total capital(4)	52.6%	55.4%	41.2%	34.7%	22.4%
Per Share Information(d)					
Basic					
Income from continuing operations	$ 1.80	$ 2.42	$ 2.22	$ 2.36	$ 2.06

Income from discontinued defense business					.58(c)
Gain on disposal of discontinued defense business					3.08
Net income	1.80	2.42	2.22	2.36	5.72
Diluted					
Income from continuing operations	1.79	2.42	2.21	2.34	2.04
Income from discontinued defense business					.58(c)
Gain on disposal of discontinued defense business					3.05
Net income	1.79	2.42	2.21	2.34	5.67
Book value	17.16	16.94	16.22	16.22	16.64
Cash dividends declared	.97	.945	.91	.885	.82
Other Information					
Diluted average number of shares outstanding(d)	40,066	40,022	41,017	45,911	49,192
Number of employees	18,700	19,700	15,700	15,300	14,600
Backlog(e)	$215,877	$258,858	$231,557	$188,594	$225,575

(a) Includes SGB Group Plc since date of acquisition (June 16, 2000).

(b) In order to comply with EITF Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. Sales for 1999, 1998 and 1997 have been reclassified to reflect this change.

(c) Includes income through August 1997 (the measurement date) from the discontinued defense business.

(d) Reflects two-for-one stock split to shareholders of record January 15, 1997.

(e) Excludes the estimated amount of long-term mill service contracts, which had estimated future revenues of $3.0 billion at December 31, 2001.

(1) Return on net sales is calculated by dividing income from continuing operations by net sales.

(2) Return on average equity is calculated by dividing income from continuing operations by quarterly weighted average equity.

(3) Return on average assets is calculated by dividing income from continuing operations before interest expense, income taxes, and minority interest by quarterly weighted average assets.

(4) Total debt to total capital is calculated by dividing the sum of debt (short-term borrowings and long-term debt including current maturities) by the sum of equity and debt.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the consolidated financial statements provided under Part II, Item 8 of this Annual Report on Form 10-K. Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed more fully herein.

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 import, currency exchange rates, interest rates, and capital costs; (3) changes in governmental laws and regulations, including taxes; (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.

Critical Accounting Policies

The Company s discussion and analysis of its financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, inventories, asset valuations, insurance accruals, income taxes, pensions and other post-retirement benefits, and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. These items should be read in conjunction with Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data.

Allowances for doubtful accounts are maintained for estimated losses resulting from the inability of customers to make required payments. The Company believes that the allowance is sufficient to properly state accounts receivable at their net realizable value. However, if the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Conversely, an improvement in a customer s ability to make payments could result in a decrease of the allowance. Changes in the allowance related to both of these situations would be recorded through income in the period the change was determined.

Inventory is adjusted for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Long-lived assets are reviewed for impairment when events and circumstances indicate that the book value of an asset may be impaired. Impairment loss estimates are based upon the difference between the book value and the fair value of the asset. The fair value is based upon the Company s estimate of how much the assets could be bought or sold for in a current transaction between willing parties. Should circumstances change that affect these estimates, additional impairment charges may be required and would be recorded through income in the period the change was determined.

The Company retains a significant portion of the risk for workers compensation, automobile, general, and product liability losses. In consultation with outside professionals, reserves have been recorded which reflect the undiscounted estimated liabilities including claims incurred but not reported. 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.

A valuation allowance is recorded to reduce deferred tax assets. This valuation allowance is principally for international tax loss carryforwards and separate basket foreign tax credits which are uncertain as to realizability. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. See Note 9, Income Taxes, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data, for additional disclosures related to these items.

Pension and post-retirement benefits are determined based upon consultation with outside actuarial professionals. Pension and benefit expenses, prepaid benefit costs and accrued benefit liabilities are recorded based on these consultations. These estimates are based upon key assumptions related to employee life expectancy, return on plan assets, compensation increases, and expected increases in health care costs. Should circumstances change that affect these estimates, changes (either increases or decreases) to the liabilities may be required and would be recorded through income in the period the change was determined. See Note 8, Employee Benefit Plans, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data, for additional disclosures related to these items.

Reserves for contingencies are recorded on the balance sheet when an event is determined to be both probable and can be reasonably estimated. Additionally, the Company includes in Note 10, Commitments and Contingencies, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data, disclosures of contingencies that are reasonably possible. The Company believes that recorded reserves are sufficient to cover known contingencies that meet these two requirements. However, should circumstances change, adjustments (either increases or decreases) to reserves may be required and would be recorded through income in the period the change was determined.

Liquidity and Capital Resources

(Dollars are in millions)	December 31 2001	December 31 2000	Increase (Decrease)
Current Assets	$ 716.1	$ 726.4	$(10.3)
Current Liabilities	474.7	536.2	(61.5)
Working Capital	$ 241.4	$ 190.2	$ 51.2
Current Ratio	1.5:1	1.4:1	
Notes Payable and Current Maturities	$ 41.8	$ 62.3	$(20.5)
Long-term Debt	720.2	774.4	(54.2)
Total Debt	762.0	836.7	(74.7)
Total Equity	686.2	674.2	12.0
Total Capital	$1,448.2	$1,510.9	$(62.7)
Total Debt to Total Capital	52.6%	55.4%	(2.8%)

A $74.7 million decrease in total debt was achieved in 2001 with $66.1 million occurring in the fourth quarter. Debt reduction remains a principal strategic objective for 2002. The Company s strategies for debt reduction include the sale of underperforming assets and reductions in working capital and capital spending. Cash generated from the sale of assets was $35.7 million and $22.5 million in 2001 and 2000, respectively. The Company has established targets of $50 million in asset sales and $100 million in debt reduction for 2002.

The change in the Company s working capital during 2001 is due principally to a $20.5 million decrease in short-term borrowings and current maturities of long-term debt, a decrease in accounts payable of $22.7 million, and an increase in cash of $11.0 million. The accounts

payable decrease is due partially to the Company s exit from S3Networks. The Company had

previously been obligated to invest an additional $10.0 million in S3Networks, which was cancelled as part of the divestiture. Additional decreases in accounts payable are due to the timing of payments to vendors and decreased purchase activity at the end of 2001 as compared with 2000. The increase in cash relates principally to the timing of cash collections at the end of 2001 as compared with 2000.

The Company has made progress in its continuous strategic focus on the reduction of inventory levels. The Company lowered inventories by $15.3 million during 2001.

The Company s debt as a percent of total capital decreased principally as a result of the Company s debt reduction program and resulting $74.7 million decrease in total debt. This decrease was partially offset by a $22.4 million decrease in equity from foreign currency translation adjustments. These adjustments are principally due to a 5% decrease in the translated value of the British pound sterling, a 3% decrease in the euro, a 27% decrease in the Brazilian real, and a 23% decrease in the South African rand, from December 31, 2000 to December 31, 2001.

Cash Utilization:	**For the Year Ended December 31**				
(In millions)	**2001**	**2000**	**1999**	**1998**	**1997**
Strategic Acquisitions	$ 4.9	$302.5	$ 48.9	$158.3	$ 8.5
Share Repurchases	0.2	7.9	71.9	169.3	113.2
Cash Dividends	38.3	37.6	37.0	40.3	39.1
Capital Investments	156.1	180.0	175.2	159.8	143.4
Total	$199.5	$528.0	$333.0	$527.7	$304.2

The Company s history of strategic acquisitions, share repurchases, when appropriate, and cash dividends, paid at the same or increased rates for the 207th consecutive quarter in February 2002, demonstrate the Company s continued commitment to creating value through strategic investments and return of capital to shareholders. During 2001, capital investments were reduced by $23.9 million compared to 2000. This is a result of more selective investing for strategic purposes that will increase Economic Value Added (EVA®).

Financial Statistics for the Year Ended December 31

	2001	**2000**
Harsco stock price high-low	$36.00 $23.60	$31.63 $17.69
Return on average equity	10.6%	14.7%
Return on average assets	7.8%	10.0%
Return on average capital	7.2%	9.6%

The Company s lower return on average equity was due principally to decreased income in 2001 compared with 2000. Lower returns on average assets and capital were due to the combination of lower income and the increased average assets and capital related to the SGB Group acquired in June 2000. The Company s book value per share increased to $17.16 per share at December 31, 2001 from $16.94 at December 31, 2000 due principally to an increase in retained earnings partially offset by negative foreign currency translation adjustments. These adjustments are recorded as part of other comprehensive expense.

In 2001, the Company successfully implemented the Stern Stewart Economic Value Added (EVA®) program for financial measurement, decision making and incentive compensation. The Company s management expects the EVA® program to improve the return on invested capital.

(In millions)	**2001**	**2000**	**1999**
Net Cash Provided by Operations	$240.6	$259.4	$214.0

Cash provided by operations in 2001 was $240.6 million, down $18.8 million from the record $259.4 million in 2000. The decrease in cash provided by operations is due principally to the timing of receipts and payments for accounts receivable and accounts payable of $5.5 million and $21.9 million, respectively. Also affecting cash provided by operations was a decrease in net income of $25.1 million. Partially offsetting these unfavorable variances was an $18.0 million increase in depreciation expense, $10.9 million provided by a favorable change in inventories and a $10.7 million decrease in the use of cash paid related to the discontinued defense business.

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Contractual Obligations and Commercial Commitments

The following summarizes the Company s expected future payments related to contractual obligations at December 31, 2001.

Contractual Obligations

December 31 (In millions)	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Short-term Debt	$ 29.3	$ 29.3	$	$	$
Long-term Debt (including current maturities)	732.7	12.5	167.7	243.0	309.5
Operating Leases	136.5	35.6	58.6	18.1	24.2
Purchase Obligations	81.7	61.1	18.2	2.4	
Foreign Currency Forward Exchange Contracts	1.8	1.8			
Other Long-term Obligations	1.2	0.6	0.6		
Total Contractual Cash Obligations	$983.2	$140.9	$245.1	$263.5	$333.7

See Note 6, Debt and Credit Agreements, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data for additional disclosures on short-term and long-term debt. See Note 7, Leases, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data for additional disclosures on operating leases. Other contractual cash obligations are not deemed to have a material impact on the Company and are not discussed in further detail.

Other Commercial Commitments

The following summarizes the Company s contingent obligations at December 31, 2001. These amounts are not included in the Company s Consolidated Balance Sheet since there are no current circumstances known to management indicating the Company will be required to make payments on these contingent obligations.

December 31 (In millions)	Total Amounts Committed	Amount of Commitment Expiration Per Period				
		Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years	Indefinite Expiration
Standby Letters of Credit	$ 39.5	$ 36.6	$2.9	$	$	$
Guarantees	19.4	3.5			0.8	15.1
Performance Bonds	125.4	96.7	3.1	2.8		22.8
Other Commercial Commitments	8.5				8.5	
Total Commercial Commitments	$192.8	$136.8	$6.0	$2.8	$9.3	$37.9

Performance bonds include an $80 million security bond related to the Federal Excise Tax litigation discussed in Note 10, Commitments and Contingencies, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data. Certain guarantees and performance bonds are of a continuous nature and do not have a definite expiration.

Credit and Equity Financing Facilities

The Company has a U.S. commercial paper borrowing program under which it can issue up to $350 million of short-term notes in the U.S. commercial paper market. In addition, the Company has a three billion Belgian franc commercial paper program equivalent to approximately U.S. $66.3 million at December 31, 2001 which is used to fund the Company s international operations. In June 2001, the Company supplemented its Belgian franc commercial paper program by adding a 250 million euro program, equivalent to approximately U.S. $222.9 million at December 31, 2001. The Company limits the aggregate

commercial paper and syndicated credit facility and bilateral facility borrowings at any one time to a maximum of $450 million. Commercial paper interest rates, which are based on market conditions, have been lower than comparable rates available under the credit facility. At December 31, 2001 and 2000, the Company had $161.8 million and $216.8 million of U.S. commercial paper outstanding, respectively, and $60.1 million and $52.0 million outstanding, respectively, under its European-based commercial paper programs. Commercial paper is classified as long-term debt at December 31, 2001 and 2000, because the Company has the ability and intent to refinance it on a long-term basis through existing long-term credit facilities.

The Company has a revolving credit facility in the amount of $350 million through a syndicate of 13 banks. This facility serves as back-up to the Company s commercial paper programs. The facility is in two parts. One part amounts to $131,250,000 and is a 364-day credit agreement that permits borrowings outstanding at expiration (September 27, 2002) to be repaid no later than September 27, 2003. The second part is for $218,750,000 and is a 5-year credit agreement that expires on September 29, 2005 at which time all borrowings are due. The first part of the facility was renegotiated in September of 2001 to extend the expiration date to the date noted above. Interest rates are either negotiated, based upon the U.S. federal funds interbank market, prime, or based upon the London Interbank Offered Rate (LIBOR) plus a margin. The Company pays a facility fee (.0825% per annum as of December 31, 2001) that varies based upon its credit ratings. At December 31, 2001 and 2000, there were no borrowings outstanding under either facility.

In the first quarter of 2001, the Company executed two $50 million bilateral credit facility agreements with European-based banks. These agreements serve as back-up to the Company s commercial paper programs and also help finance the Company s European operations. Borrowings under these facilities, which expire in January 2002 and December 2002, are available in Eurocurrencies or U.S. dollars at interest rates based upon LIBOR plus a margin. Borrowings outstanding at expiration may be repaid over the succeeding 4 years. As of December 31, 2001 there was $11.3 million outstanding on these credit facilities. Subsequent to December 31, 2001 the facility expiring January 2002 was extended to January 2003.

On October 27, 2000, the Company issued 200 million British pound sterling (U.S. $287.1 million) 7.25% notes due 2010. The annual interest payments commenced on October 27, 2001. The net proceeds of the issue were used to refinance certain bank debt that was used to fund the acquisition of SGB Group.

The Company has on file with the Securities and Exchange Commission a Form S-3 shelf registration 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.

Short-term debt amounted to $29.3 million and $47.7 million at December 31, 2001 and 2000, respectively. The weighted average interest rate for short-term borrowings at December 31, 2001 and 2000 was 5.5% and 5.7%, respectively.

The credit facility and certain notes payable agreements contain covenants requiring a minimum net worth of $475 million and a maximum debt to capital ratio of 60%. At December 31, 2001, the Company was in compliance with these covenants and does not know of any circumstances that would lead to non-compliance in the foreseeable future.

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.

Uncertainties Discontinued Defense Business

Currently, the Company is involved in a claim with regards to Federal Excise Tax related to a 1986 contract for the sale of five-ton trucks to the United States Army. The Company believes that payment of this claim is not probable; however, it is possible that resolution of this claim could result in the Company being required to remit taxes, penalties, and interest payments to the Internal Revenue Service. If that should happen, the Company believes the payment will not 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. If the cargo trucks are ultimately held to be taxable, as of December 31, 2001, the

Company s net maximum liability for this claim would be $5.8 million plus penalties and applicable interest currently estimated to be $12.4 million and $59.7 million, respectively. See Note 10, Commitments and Contingencies, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data for additional disclosure on this uncertainty.

Results of Operations for 2001, 2000, and 1999

	2001	2000	1999
(Dollars are in millions, except per share)			
Revenues	$2,108.5	$2,004.7	$1,751.0
Cost of services and products sold	1,594.5	1,528.9	1,362.7
Selling, general and administrative expenses	322.9	274.1	207.8
Other Expenses	23.5	1.3	6.0
Provision for income taxes	37.0	46.8	51.6
Net income	71.7	96.8	90.7
Diluted earnings per common share	1.79	2.42	2.21

Comparative Analysis of Consolidated Results

Revenues

2001 vs. 2000

Revenues for 2001 were up 5% from 2000 to a record level. This is attributable to the Company s SGB Group scaffolding and access service business that was acquired in June 2000. This increase was augmented by increased rentals in the existing domestic scaffolding services business. Additionally abrasives and roofing granules sales increased. These increases were somewhat offset by decreases in railway maintenance equipment sales; most product lines of the Gas and Fluid Control Group; and the Mill Services Segment. Adjusting for the unfavorable effect of foreign currency translation, revenues would have increased 7%.

2000 vs. 1999

Revenues for 2000 were significantly above those recorded in 1999. Sales increased principally due to the addition of acquired companies, particularly SGB Group which was acquired in June 2000. The improvement also resulted from increased demand in mill services and non-residential construction markets in the United States. Sales decreased in the United States for railway track maintenance contract services and equipment (excluding acquisitions) as well as for products in the Gas and Fluid Control Segment. These decreases principally resulted from softening demand due to high energy costs and the unfavorable effects of an economic slowdown in the United States manufacturing sector that began in the fourth quarter of 2000. Excluding the unfavorable foreign currency translation effect of the strong U.S. dollar, particularly relative to the euro, revenues increased by more than 17%.

Cost of Services and Products Sold

2001 vs. 2000

Cost of services and products sold increased, but at a lower rate than the increase in revenues. Approximately $127 million of the increase is due to the effect of acquired companies. Excluding the net effects of business acquisitions and dispositions, costs of services and products sold decreased approximately 4%.

2000 vs. 1999

Cost of services and products sold increased, but at a lower rate than the increase in revenues, despite a significant increase in energy costs. On a comparative basis, 2000 was unfavorably affected by higher product costs of $8 million due to cost inflation. This was offset by a one-time employee benefit plan change that reduced pre-tax costs by approximately $5.3 million, and by lower pension costs.

Selling, General and Administrative Expenses

2001 vs. 2000

Selling, general and administrative expenses increased due to the costs related to acquired companies, principally SGB Group. On a comparative basis, 2001 was negatively impacted by a $9.3 million pre-tax increase in provisions for uncollectible accounts receivable, particularly in the Mill Services Segment where several customers in the steel industry have experienced financial difficulties including bankruptcies. The Company s continuing cost reduction, process improvement and reorganization efforts helped contain overall selling, general and administrative expenses. Excluding the net effects of business acquisitions and dispositions and the above noted increase in provisions for uncollectible accounts receivable, selling, general and administrative expenses decreased approximately 3%.

2000 vs. 1999

Selling, general and administrative expenses increased due to the costs related to acquired companies. The Company s continuing cost reduction, process improvement and reorganization efforts slowed the growth rate of these costs. Excluding the net effects of business acquisitions and dispositions, selling, general and administrative expenses decreased approximately 3%.

Other Expenses

This income statement classification principally 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. During 2001 (principally the fourth quarter) the Company adopted plans to streamline operations that included the consolidation, closure and sale of certain operating locations, as well as the exit from several underperforming product lines. Management also initiated headcount reductions in both administrative and operating positions. Additionally, the Company recorded asset impairment charges related to Mill Services customers that filed for bankruptcy or shut down operations. These actions resulted in net other expenses of $23.5 million in 2001 compared to $1.3 million in 2000 and $6.0 million in 1999.

For additional information, see Note 15, Other (Income) and Expenses, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data.

Provision for Income Taxes

2001 vs. 2000

The effective income tax rate for 2001 was 32.5% versus 31.5% for 2000. The increase in the income tax rate is due principally to higher effective income tax rates on domestic earnings.

2000 vs. 1999

The effective income tax rate for 2000 was 31.5% versus 35% for 1999. The reduction in the income tax rate is due principally to lower rates on international earnings.

Net Income and Earnings Per Share

2001 vs. 2000

Net income of $71.7 million and diluted earnings per share of $1.79 were below 2000 due principally to increased provisions for uncollectible accounts receivable; increased other expenses; increased interest expense and a higher effective tax rate.

2000 vs. 1999

Net income of $96.8 million and diluted earnings per share of $2.42 were above 1999 due principally to the addition of acquired companies and a lower effective tax rate. This increase was negatively impacted by increased interest expense related to additional borrowings for the acquisitions of SGB Group and Pandrol Jackson.

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Segment Analysis

Infrastructure Segment

(In millions)	2001	2000	1999
Sales	$887.0	$703.6	$432.5
Operating income	79.0	62.3	41.2
Segment net income	30.9	26.1	22.5

2001 vs. 2000

The increase in sales and operating income is primarily due to the June 2000 acquisition of SGB Group. This increase was augmented by increased rentals in the existing domestic scaffolding services business and increased contracting of railway maintenance equipment. These increases were partially offset by decreases in industrial grating sales and rail track maintenance equipment and repair parts sales. These decreases reflect the downturn in the United States manufacturing sectors that started in the fourth quarter of 2000 and resulted in a recessionary environment during 2001.

The net income increase in 2001 is directly related to the operating increases noted above. The increase was negatively impacted by higher interest expense in 2001 resulting from the financing of the SGB Group acquisition.

2000 vs. 1999

The significant increase in sales and operating income of the Infrastructure Segment for 2000 is due to the acquisition of SGB in the second quarter of 2000 and Pandrol Jackson in the fourth quarter of 1999. The acquisitions resulted in increased sales of scaffolding, shoring, and forming services and railway track maintenance contracting services and equipment.

Excluding acquisitions, the operating income of the Infrastructure Segment decreased by $7.7 million in 2000. The decrease reflects reduced demand for railway track maintenance contracting services and equipment. This was experienced particularly in the United States where the Company s customers were confronted with a manufacturing sector economic slowdown beginning in the fourth quarter of 2000 as well as significantly higher energy costs. Railroad customers delayed the purchase of equipment and deferred their maintenance programs for most of the year. Additionally, a pre-tax non-recurring asset write-down of $3.0 million was incurred in the third quarter of 2000 for the railway track maintenance business. Despite higher sales, operating income for the grating product line decreased due to higher material costs. The decrease in the Segment s operating income excluding acquisitions was partially offset by improved income for scaffolding services due to a continuing strong United States non-residential construction market.

Net income of the Infrastructure Segment increased due to the conditions previously discussed.

Mill Services Segment

(In millions)	2001	2000	1999
Sales	$731.0	$757.4	$737.8
Operating income	61.3	92.6	78.2
Segment net income	35.0	58.5	45.1

2001 vs. 2000

A combination of strong production volumes and new contracts from the Company s international mill services operations in 2001 partially offset the unfavorable effects of reduced steel mill production and steel mill closures and its impact on capacity utilization at many mills in North America. This adversely affected the volume of services provided by the Company. Excluding the unfavorable effect of foreign currency translation, 2001 sales would have been $35.8 million higher and would have fully offset the effect of reduced domestic steel production.

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Operating income for 2001 decreased principally due to lower income in United States and due to the effects of foreign currency translation. The downturn in domestic steel production indicated above also contributed to customer financial difficulties that resulted in an increase of $4.3 million in provisions for uncollectible accounts receivable during the 2001 period for customers in the United States who have filed for bankruptcy protection or shut down operations. Internationally, there was an increase of $3.4 million in provisions for uncollectible accounts receivable during 2001. Additionally, operating income was negatively impacted by $18.9 million of increased charges for impaired asset write-downs and employee termination benefit costs.

Net income for 2001 was below 2000 due to the factors previously mentioned.

2000 vs. 1999

Sales of the Mill Services Segment in 2000 were above 1999 despite the unfavorable effect of foreign exchange translation and the disposition of two non-core businesses. Excluding these factors and the effects of an acquisition, sales increased by 10% in 2000. However, by year-end 2000 an oversupply of steel in the United States and Canada, due principally to a high level of imports, unfavorably affected prices, production and the profitability of many steel mills; consequently the demand for mill services began to decline.

Operating income of the Mill Services Segment for 2000 was significantly above 1999. The increase reflects the improved operating and economic environment for mill services in the first half of 2000 and the favorable effects of continuous process improvement programs and reorganization efforts that more than offset significantly higher energy costs. Excluding the unfavorable foreign currency translation effect of the strong U. S. dollar, the disposition of two non-core businesses and a business acquisition, operating income increased by approximately 28%.

Net income of the Mill Services Segment for 2000 was also significantly above 1999. The increase reflects the conditions previously discussed. Additionally, a lower effective income tax rate in 2000 favorably affected international earnings.

Gas and Fluid Control Segment

(In millions)	2001	2000	1999
Sales	$489.1	$542.4	$579.6
Operating income	19.6	41.1	47.5
Segment net income	10.4	23.9	27.0

2001 vs. 2000

During 2001, sales, operating income and net income were below 2000 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 during 2001. This has affected demand for most gas control and containment equipment product lines. These decreases were partially offset by higher sales and operating income for heat exchangers, reflecting improvement in the natural gas industry.

The 2001 operating income reflects the impact of other expenses of $5.0 million relating primarily to employee termination benefit costs. This compares with $0.2 million and $2.9 million in other expenses for 2000 and 1999, respectively.

2000 vs. 1999

The decrease in 2000 sales of the Gas and Fluid Control Segment is due principally to reduced demand and to competitive pricing restraints for most product lines, as well as the disposition of three non-core businesses.

The decreases in operating income and net income reflect the unfavorable effect of lower sales which more than offset net gains associated with the sale of non-core businesses. Additionally, higher manufacturing production costs contributed to the decrease in income.

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Services and Engineered Products Analysis

The Company is a diversified services and engineered products company. Over the last several years management has transformed the Company into a global services company. Sales, operating income and EBITDA for 2001 and 2000 are presented in the following table:

(Dollars are in millions)	2001		2000		1999	
	Amount	Percent	Amount	Percent	Amount	Percent
Sales						
Services	$1,323.0	63%	$1,140.9	57%	$ 866.8	50%
Engineered products	784.1	37	862.5	43	883.1	50
Total sales	$2,107.1	100%	$2,003.4	100%	$1,749.9	100%
Operating Income						
Services	$ 126.0	79%	$ 122.7	63%	$ 84.9	51%
Engineered products	33.9	21	73.3	37	82.0	49
Total segment operating income	$ 159.9	100%	$ 196.0	100%	$ 166.9	100%
EBITDA*						
Services	$ 269.3	80%	$ 248.0	71%	$ 191.1	63%
Engineered products	65.9	20	103.3	29	110.3	37
Total segment EBITDA	$ 335.2	100%	$ 351.3	100%	$ 301.4	100%

* Earnings before interest, income taxes, 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.

2001 vs. 2000

Service sales, operating income and EBITDA in 2001 increased from 2000. The increases reflect principally the SGB Group acquisition, as well as improvement in certain international markets served by the Company and the favorable effects of cost reductions, process improvements and reorganization efforts.

Engineered products sales, operating income and EBITDA in 2001 decreased significantly from 2000. The decreases result from the previously discussed recessionary manufacturing environment in the United States.

2000 vs. 1999

Service sales, operating income and EBITDA in 2000 increased significantly from 1999. The increase reflects the effects of acquired companies, principally SGB and Pandrol Jackson, as well as improved economic conditions in certain markets served by the company.

Operating income for 2000 for engineered products was down from 1999 due to reduced margins for certain products, principally grating and industrial fittings.

Research and Development

The Company invested $4.0 million in internal research and development programs in 2001. Internal funding for the Infrastructure Segment amounted to $2.2 million, principally for railway track maintenance equipment and services. Expenditures for the Mill Services and Gas and Fluid Control Segments were $1.0 million and $0.8 million, respectively.

Backlog

As of December 31, 2001, the Company s order backlog, exclusive of long-term mill services contracts, was $215.9 million compared with $258.9 million as of December 31, 2000, a 17% decrease. The Infrastructure Segment order backlog at December 31, 2001 was $156.3 million, a decrease of 14% from the December 31, 2000 backlog of $181.7 million. The decrease is principally due to a decrease in backlog for railway track maintenance services which was partially offset by an increase in orders for railway track maintenance equipment. Also, contributing to the Infrastructure Segment decrease was reduced demand for bridge decking. The bridge decking product line was sold in January 2002. Backlog for scaffolding,

shoring and forming services of the Infrastructure Segment is excluded from the reported amounts. These amounts are generally not quantifiable due to the nature of the products and services provided.

The Gas and Fluid Control Segment backlog at December 31, 2001 of $59.5 million was 23% below the December 31, 2000 backlog of $77.2 million. The decrease reflects reduced backlog for all product lines principally heat exchangers, high pressure gas cylinders and cryogenic equipment.

Mill services contracts have an estimated future value of $3.0 billion at December 31, 2001, which is 14% below the $3.5 billion at December 31, 2000. The decrease is due in part to market conditions, including mill shutdowns principally in the United States. Additionally, the continuing appreciation of the U.S. dollar in relation to several local currencies of the Company s international operations particularly South Africa, Australia and the United Kingdom contributed to the decrease. Over 50% of these revenues are expected to be recognized by December 31, 2004. The remaining revenues are expected to be recognized principally between January 1, 2005 and December 31, 2010.

Dividend Action

The Company paid four quarterly cash dividends of $.24 per share in 2001, for an annual rate of $.96. This is an increase of 2.1% from 2000. At the November 2001 meeting, the Board of Directors increased the dividend by 4.2% to an annual rate of $1.00 per share. The Board normally reviews the dividend rate periodically during the year and annually at its November meeting. There are no material restrictions on the payment of dividends.

The Company is proud of its history of paying dividends. The Company has paid dividends each year since 1939. The February 2002 payment marked the 207th consecutive quarterly dividend paid at the same or at an increased rate. During the five-year period ended December 31, 2001, dividends paid were increased five times. In 2001, 53% of net earnings were paid out in dividends. The Company is philosophically committed to maintaining or increasing the dividend at a sustainable level.

New Financial Accounting Standards Issued

SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142)

In July 2001, the FASB issued SFAS 142, which eliminates the amortization of goodwill, requires annual impairment testing of goodwill and introduces the concept of indefinite life intangible assets. SFAS 142 supersedes APB No. 17, Intangible Assets . The Company adopted SFAS 142 on January 1, 2002. An initial two-step impairment test of reporting units must be performed in 2002. Step 1 is a comparison of fair value to book value. If the fair value exceeds the book value, Step 2 of the test is not required as no impairment of goodwill exists. Step 2 requires the allocation of fair values to assets (including goodwill) and liabilities as if the reporting unit had just been purchased. If goodwill is determined to be impaired, a write-down to fair value would be required. Although the Company has not completed its initial testing for impairment, it does not expect to recognize an impairment loss related to adopting SFAS 142. However, if an impairment charge is necessary, it will be reported as a change in accounting principle. Additionally, the Company does not expect to reclassify any goodwill to an intangible asset or vice versa and no intangible assets are expected to be classified as indefinite-lived.

The Company recognized $17.4 million and $18.0 million of pre-tax goodwill amortization expense for the years ended December 2001 and 2000, respectively. The effect of adoption of the new standard is estimated to reduce pre-tax amortization expense in 2002 by approximately $16.0 million or approximately $0.27 per share. This benefit of non-amortization of goodwill will be offset by anticipated increases in pension expenses and insurance costs in 2002 resulting from the current global economic environment.

For additional information on new accounting standards issued (including SFAS 141, SFAS 143, and SFAS 144), see Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data.

Item 7A. ***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 and approximately 48%, 42% and 36% of the Company s net revenues for the years ended December 31, 2001, 2000 and 1999, respectively, were derived from the Company s operations outside the United States. In 2001, the values of the following currencies decreased in relation to the U.S. dollar and impacted the Company:

Brazilian real	Declined 27%
South African rand	Declined 23%
British pound sterling	Declined 5%
euro	Declined 3%

These and other 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 currencies 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, 2001 sales would have been approximately 1.9% or $40.7 million greater using the average exchange rates for the year 2000. A similar comparison for the year 2000 would have increased sales approximately 2.2% or $45 million if the average exchange rates for 1999 would have remained the same in 2000.

At December 31, 2001 and 2000, currency changes resulted in assets and liabilities denominated in local currencies being translated into fewer dollars than at the prior year-end. This resulted in decreased net assets of $22.4 million and $28.3 million at December 31, 2001 and 2000, respectively.

The Company seeks to reduce exposures to foreign currency transaction fluctuations through the use of forward exchange contracts. At December 31, 2001, these contracts amounted to $1.8 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.

For additional information on forward exchange contracts and hedging, see Note 13, Financial Instruments, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data.

The Company s cash flows and earnings are subject to changes in interest rates. Total debt of $762.0 million as of December 31, 2001 was approximately 39% at variable rates of interest. The weighted average interest rate of total debt was approximately 5.4%. At current debt levels, a one-percentage increase/decrease in interest rates would increase/decrease interest expense by approximately $3.0 million per year.

An economic slowdown in the United States that began in the second half of 2000 has resulted in a recessionary environment during 2001. This resulted in reduced demand for the Company s manufactured products and mill services in North America. Several steel producers, including certain Company customers, have filed for bankruptcy protection or shut down operations. This recessionary environment has resulted in the Company recording $23.5 million in net pre-tax charges related to impaired asset write-downs, employee termination benefit costs and costs to exit activities, offset by net gains on the disposal of non-core assets during 2001. (For additional information on the $23.5 million in charges, see Note 15, Other (Income) Expenses, to the Consolidated Financial Statements under Part II, Item 8, Financial Statements and Supplementary Data). The Company was also negatively impacted by $12.6 million of pre-tax provisions for uncollectible accounts receivable in 2001, an increase of $9.3 million from 2000, primarily in the Mill Services Segment. 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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PART II

Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF INDEPENDENT ACCOUNTANTS

[PRICEWATERHOUSECOOPERS LOGO]

To the Shareholders of Harsco Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders equity, comprehensive income and cash flows present fairly, in all material respects, the financial position of Harsco Corporation and Subsidiary Companies at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

January 31, 2002

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HARSCO CORPORATION

CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts) December 31	2001	2000
Assets		
Current assets		
Cash and cash equivalents	$ 67,409	$ 56,422
Accounts receivable, net	396,185	413,654
Inventories	183,812	199,117
Other current assets	68,661	57,222
Total current assets	716,067	726,415
Property, plant and equipment, net	840,489	896,781
Cost in excess of net assets of businesses acquired, net	353,564	369,199
Other assets	180,646	188,553
Total assets	$2,090,766	$2,180,948
Liabilities		
Current liabilities		
Short-term borrowings	$ 29,300	$ 47,676
Current maturities of long-term debt	12,471	14,619
Accounts payable	169,434	192,148
Accrued compensation	37,757	46,591
Income taxes	35,523	34,783
Dividends payable	9,996	9,553
Other current liabilities	180,193	190,809
Total current liabilities	474,674	536,179
Long-term debt	720,197	774,450
Deferred income taxes	103,082	88,480
Insurance liabilities	49,019	46,988
Other liabilities	57,621	60,672
Total liabilities	1,404,593	1,506,769
Commitments and Contingencies		
Shareholders Equity		
Preferred stock, Series A junior participating cumulative preferred stock		
Common stock, par value $1.25, issued 66,484,633 and 66,309,651 shares as of December 31, 2001 and 2000, respectively	83,106	82,887
Additional paid-in capital	94,597	90,000
Accumulated other comprehensive expense	(135,263)	(109,377)
Retained earnings	1,247,680	1,214,659
	1,290,120	1,278,169

Treasury stock, at cost (26,499,784 and 26,504,479 shares, respectively)	(603,947)	(603,990)
Total shareholders equity	686,173	674,179
Total liabilities and shareholders equity	$2,090,766	$2,180,948

See accompanying notes to consolidated financial statements.

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HARSCO CORPORATION

CONSOLIDATED STATEMENT OF INCOME

(In thousands, except per share amounts) **Years ended December 31**	**2001**	**2000**	**1999**
Revenues			
Service sales(1)	$1,323,000	$1,140,922	$ 866,839
Product sales(1)	784,111	862,465	883,049
Other	1,363	1,354	1,119
Total revenues	2,108,474	2,004,741	1,751,007
Costs and expenses			
Cost of services sold	954,417	840,501	669,364
Cost of products sold	640,037	688,385	693,368
Selling, general, and administrative expenses	322,934	274,079	207,765
Research and development expenses	3,981	5,714	7,759
Other expenses	23,490	1,334	6,019
Total costs and expenses	1,944,859	1,810,013	1,584,275
Operating income	163,615	194,728	166,732
Equity in income (loss) of affiliates, net	(1,852)	(2,020)	3,004
Interest income	5,589	5,987	4,662
Interest expense	(53,557)	(50,104)	(26,968)
Income before income taxes and minority interest	113,795	148,591	147,430
Provision for income taxes	36,982	46,805	51,599
Income before minority interest	76,813	101,786	95,831
Minority interest in net income	5,088	4,983	5,118
Net income	$ 71,725	$ 96,803	$ 90,713
Average shares of common stock outstanding	39,876	39,964	40,882
Basic earnings per common share	$ 1.80	$ 2.42	$ 2.22
Diluted average shares of common stock outstanding	40,066	40,022	41,017
Diluted earnings per common share	$ 1.79	$ 2.42	$ 2.21