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HARSCO CORP  
Form 10-Q  
August 08, 2007

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

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FORM 10-Q

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

For the Quarterly Period Ended June 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-3970

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

Delaware

23-1483991

-----  
(State of incorporation)

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

350 Poplar Church Road, Camp Hill, Pennsylvania

17011

-----  
(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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

Class	Outstanding at July 31, 2007
Common stock, par value \$1.25 per share	84,181,622

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	THREE MONTHS ENDED JUNE 30	
	2007	2006 (A)
<b>REVENUES FROM CONTINUING OPERATIONS:</b>		
Service sales	\$ 810,429	\$ 636,393
Product sales	135,720	129,629
TOTAL REVENUES	946,149	766,022
<b>COSTS AND EXPENSES FROM CONTINUING OPERATIONS:</b>		
Cost of services sold	585,677	457,133
Cost of products sold	97,580	95,066
Selling, general and administrative expenses	127,313	115,053
Research and development expenses	734	694
Other (income) expenses	(1,003)	1,658
TOTAL COSTS AND EXPENSES	810,301	669,604
OPERATING INCOME FROM CONTINUING OPERATIONS	135,848	96,418
Equity in income of unconsolidated entities, net	285	102
Interest income	1,173	888
Interest expense	(20,540)	(14,618)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	116,766	82,790
Income tax expense	(37,388)	(27,542)
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	79,378	55,248
Minority interest in net income	(2,335)	(2,089)
INCOME FROM CONTINUING OPERATIONS	77,043	53,159

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DISCONTINUED OPERATIONS:		
Income from operations of discontinued business	8,959	969
Disposal costs of discontinued business	(580)	--
Income tax expense	(2,353)	(254)
-----		
INCOME FROM DISCONTINUED OPERATIONS	6,026	715
-----		
NET INCOME	\$ 83,069	\$ 53,873
=====		
Average shares of common stock outstanding		
	84,145	83,922
Basic earnings per common share:		
Continuing operations	\$ 0.92	\$ 0.63
Discontinued operations	0.07	0.01
-----		
BASIC EARNINGS PER COMMON SHARE	\$ 0.99	\$ 0.64
=====		
Diluted average shares of common stock outstanding		
	84,702	84,444
Diluted earnings per common share:		
Continuing operations	\$ 0.91	\$ 0.63
Discontinued operations	0.07	0.01
-----		
DILUTED EARNINGS PER COMMON SHARE	\$ 0.98	\$ 0.64
=====		
CASH DIVIDENDS DECLARED PER COMMON SHARE		
	\$ 0.1775	\$ 0.1625
=====		

(a) Reclassified for comparative purposes.

(b) Does not total due to rounding.

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(IN THOUSANDS)	JUNE 30 2007
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 95
Accounts receivable, net	812
Inventories	240
Other current assets	76
Assets held-for-sale	290
-----	
TOTAL CURRENT ASSETS	1,516
-----	
Property, plant and equipment, net	1,391

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Goodwill, net	697
Intangible assets, net	190
Other assets	97
-----	
TOTAL ASSETS	\$ 3,892
=====	
LIABILITIES	
CURRENT LIABILITIES:	
Short-term borrowings	\$ 412
Current maturities of long-term debt	3
Accounts payable	288
Accrued compensation	85
Income taxes payable	45
Dividends payable	16
Insurance liabilities	43
Other current liabilities	243
Liabilities associated with assets held-for-sale	57
-----	
TOTAL CURRENT LIABILITIES	1,196
-----	
Long-term debt	903
Deferred income taxes	153
Insurance liabilities	64
Retirement plan liabilities	176
Other liabilities	101
-----	
TOTAL LIABILITIES	2,595
-----	
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Common stock	138
Additional paid-in capital	119
Accumulated other comprehensive loss	(124)
Retained earnings	1,767
Treasury stock	(603)
-----	
TOTAL STOCKHOLDERS' EQUITY	1,297
-----	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,892
=====	

See accompanying notes to unaudited condensed consolidated financial statements.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES:  
Net income

\$

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

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

CASH FLOWS FROM INVESTING ACTIVITIES:  
Purchases of property, plant and equipment  
Net use of cash associated with the purchases of businesses  
Proceeds from sale of assets  
Other investing activities

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

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

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

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

Net decrease in cash and cash equivalents

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

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

\$  
=====

See accompanying notes to unaudited condensed consolidated financial statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	THRE
(IN THOUSANDS)	2007
Net income	\$ 83,
<hr style="border-top: 1px dashed black;"/>	
Other comprehensive income (loss):	
Foreign currency translation adjustments	28,
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of \$5 and (\$17) in 2007 and 2006, respectively	
Pension liability adjustments, net of deferred income taxes of \$242 and \$2,597 in 2007 and 2006, respectively	(
Marketable securities, unrealized gain, net of deferred income taxes of \$1 and \$0 in 2007 and 2006, respectively	
Reclassification adjustment for gain on cash flow hedging instruments included in net income, net of deferred income taxes of \$1 and \$0 in 2007 and 2006, respectively	
<hr style="border-top: 1px dashed black;"/>	
Other comprehensive income	27,
<hr style="border-top: 1px dashed black;"/>	
TOTAL COMPREHENSIVE INCOME	\$ 110,
<hr style="border-top: 3px double black;"/>	
	SIX
<hr style="border-top: 1px dashed black;"/>	
(IN THOUSANDS)	2007
Net income	\$ 130,
<hr style="border-top: 1px dashed black;"/>	
Other comprehensive income (loss):	
Foreign currency translation adjustments	35,
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes of \$5 and (\$11) in 2007 and 2006, respectively	
Pension liability adjustments, net of deferred income taxes of \$(4,148) and \$3,265 in 2007 and 2006, respectively	9,
Marketable securities, unrealized gain, net of deferred income taxes of \$1 and (\$1) in 2007 and 2006, respectively	
Reclassification adjustment for (gain) loss on cash flow hedging instruments	

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included in net income, net of deferred income taxes of \$3 and (\$1) in 2007 and 2006, respectively

Other comprehensive income	44,
TOTAL COMPREHENSIVE INCOME	\$ 175,

See accompanying notes to unaudited condensed consolidated financial statements.

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

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

##### A. OPINION OF MANAGEMENT

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

##### B. RECLASSIFICATIONS

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

##### C. REVIEW OF OPERATIONS BY SEGMENT

(IN THOUSANDS)	THREE MONTHS ENDED JUNE 30, 2007	
	SALES	OPERATING INCOME (LOSS)
Access Services Segment	\$ 360,921	\$ 49,305
Mill Services Segment	380,824	36,670

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Segment Totals	741,745	85,975
Minerals & Rail Technologies, Services and Products ("all other") Category (a)	204,404	50,539
General Corporate	--	(666)
Consolidated Totals	\$ 946,149	\$ 135,848

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

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

(IN THOUSANDS)	SIX MONTHS ENDED JUNE 30, 2007	
	SALES	OPERATING INCOME (LOSS)
Access Services Segment	\$ 677,130	\$ 84,346
Mill Services Segment	741,594	68,978
Segment Totals	1,418,724	153,324
Minerals & Rail Technologies, Services and Products ("all other") Category (a)	367,451	69,918
General Corporate	--	(820)
Consolidated Totals	\$ 1,786,175	\$ 222,422

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

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

(IN THOUSANDS)	THREE MONTHS ENDED JUNE 30	
	2007	2006



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Segment Operating Income	\$ 85,975	\$ 75,181
Minerals & Rail Technologies, Services and Products ("all other") Category	50,539	22,001
General Corporate	(666)	(764)
Operating income from continuing operations	135,848	96,418
Equity in income of unconsolidated entities, net	285	102
Interest income	1,173	888
Interest expense	(20,540)	(14,618)
Income from continuing operations before income taxes and minority interest	\$ 116,766	\$ 82,790

D. ACCOUNTS RECEIVABLE AND INVENTORIES

At June 30, 2007 and December 31, 2006, accounts receivable of \$812.6 million and \$753.2 million, respectively, were net of an allowance for doubtful accounts of \$27.4 million and \$25.4 million, respectively. Gross accounts receivable included trade accounts receivable of \$801.2 million and \$737.1 million at June 30, 2007 and December 31, 2006, respectively. Other receivables included insurance claim receivables of \$18.3 million and \$18.9 million at June 30, 2007 and December 31, 2006, respectively. The provision for doubtful accounts was \$1.9 million and \$2.1 million for the three months ended June 30, 2007 and 2006, respectively. For six months ended June 30, 2007 and 2006, the provision for doubtful accounts was \$4.7 million and \$4.4 million, respectively.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

Inventories consist of the following:

(IN THOUSANDS)	INVENTORIES	
	JUNE 30 2007	DECEMBER 31 2006
Finished goods	\$ 113,225	\$ 117,072
Work-in-process	16,209	31,489
Raw materials and purchased parts	66,282	96,750
Stores and supplies	45,033	39,918
Total Inventories	\$ 240,749	\$ 285,229

Inventories decreased \$44.5 million from December 31, 2006 due to the following factors:

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- o Decreased finished goods, work-in-process and raw materials inventories due to the reclassification of the Gas Technologies Segment to Discontinued Operations in the first quarter of 2007. All related assets and liabilities are classified as held-for-sale.

This was partially offset by:

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

### E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

(IN THOUSANDS)	JUNE 30 2007	DECEMBER 31 2006
Land and improvements	\$ 45,859	\$ 41,255
Buildings and improvements	166,649	192,575
Machinery and equipment	2,773,141	2,699,131
Uncompleted construction	69,118	52,640
Gross property, plant and equipment	3,054,767	2,985,601
Less accumulated depreciation	(1,663,734)	(1,663,134)
Net property, plant and equipment	\$ 1,391,033	\$ 1,322,467

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

### F. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table reflects the changes in carrying amounts of goodwill by segment for the six months ended June 30, 2007:

#### GOODWILL BY SEGMENT

(IN THOUSANDS)	ACCESS SERVICES SEGMENT	MILL SERVICES SEGMENT	MINERALS & RAIL TECHNOLOGIES, SERVICES AND PRODUCTS ("ALL OTHER") CATEGORY

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Balance as of December 31, 2006, net of accumulated amortization	\$ 241,937	\$ 325,492	\$ 8,137
Goodwill acquired during the year	--	4,595	107,480
Changes to Goodwill (a)	(386)	--	--
Foreign currency translation	4,736	4,156	1,413
Goodwill transferred to assets held-for-sale	--	--	--
-----	-----	-----	-----
BALANCE AS OF JUNE 30, 2007, NET OF ACCUMULATED AMORTIZATION	\$ 246,287	\$ 334,243	\$ 117,030
=====	=====	=====	=====

(a) Relate principally to opening balance sheet adjustments.

Goodwill is net of accumulated amortization of \$101.5 million and \$109.3 million at June 30, 2007 and December 31, 2006, respectively. The reduction in accumulated amortization from December 31, 2006 is due to the transfer of the Gas Technologies Segment's balance to assets held-for-sale.

The following table reflects intangible assets by major category:

INTANGIBLE ASSETS

(IN THOUSANDS)	JUNE 30, 2007		DECEMBER 31, 2006	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
-----	-----	-----	-----	-----
Customer Relationships	\$ 148,682	\$ 15,348	\$ 87,426	\$ 7,084
Non-compete agreements	3,347	2,815	5,648	4,708
Patents	6,760	4,083	4,700	3,940
Other (a)	62,344	7,680	9,800	3,678
-----	-----	-----	-----	-----
Total	\$ 221,133	\$ 29,926	\$ 107,574	\$ 19,410
=====	=====	=====	=====	=====

(a) Principally technical know-how and contractual revenue.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

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

During the first six months of 2007, the Company acquired the following intangible assets (by major class) which are subject to amortization. These intangible assets relate principally to the Excell Minerals and the Performix

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Technologies Ltd. acquisitions more fully discussed in Note G, "Acquisitions and Dispositions."

### ACQUIRED INTANGIBLE ASSETS

(IN THOUSANDS)	GROSS CARRYING AMOUNT	RESIDUAL VALUE	WEIGHTED-AVERAGE AMORTIZATION PERIOD
Customer relationships	\$ 60,240	None	5 years
Patents	2,010	None	10 years
Other (a)	50,390	None	9 years
Total	\$ 112,640		

(a) Principally technical know-how and contractual revenue.

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

Amortization expense for intangible assets was \$7.3 million and \$12.3 million for the second quarter and first six months of 2007, respectively. This compares with \$1.7 million and \$3.3 million for the second quarter and first six months of 2006, respectively. The following table shows the estimated amortization expense for the next five fiscal years based on current intangible assets:

(IN THOUSANDS)	2007	2008	2009	2010
Estimated amortization expense (a)	\$ 25,800	\$ 25,500	\$ 24,400	\$ 24,100

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

### G. ACQUISITIONS AND DISPOSITIONS

#### ACQUISITIONS

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

In February 2007, the Company acquired Excell Materials, Inc. ("Excell"), a Pittsburgh-based multinational company, for approximately \$210 million, which included the assumption of debt but excluded direct acquisition costs. Excell specializes in the reclamation and recycling of high-value content from principally steelmaking slag. Excell is also involved in the development of mineral-based products for commercial applications. Excell recorded 2006 sales in excess of \$100 million and maintains operations at nine locations in the United States, Canada, Brazil, South Africa and Germany. Goodwill recognized in this transaction (based on foreign exchange rates at the transaction date) was \$107.5 million, none of which is expected to be deductible for U.S. income tax purposes. Because this acquisition occurred in the first quarter of 2007, the

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purchase price allocation and goodwill balance have not been finalized as of June 30, 2007. Excell has been included in the Minerals & Rail Technologies, Services and Products ("all other") Category and has been renamed Excell Minerals to emphasize its long-term growth strategy.

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

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

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

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

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

Consistent with the Company's strategic focus to grow and allocate financial resources to its industrial services businesses, in January 2007, the Company's Board of Directors approved the divestiture of its Gas Technologies Segment, which consists of manufacturing businesses. This Segment recorded revenues and operating income of \$397.7 million and \$14.2 million, respectively, for 2006. The Company expects the divestiture to occur in the second half of 2007. Results of operations of the Segment have been included in Discontinued Operations of the income statement effective with the first quarter 2007 report. The Segment's assets and liabilities are classified as held-for-sale in the June 30, 2007 balance sheet.

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

(IN THOUSANDS)	JUNE 30 (a) 2007	DECEMBER 31 2006
<b>ASSETS</b>		
Accounts receivable, net	\$ 66,940	\$ --
Inventories	108,341	--
Other current assets	2,690	--
Property, plant and equipment, net	71,162	3,567
Goodwill, net	36,920	--
Other assets	4,238	--
<b>TOTAL ASSETS "HELD-FOR-SALE"</b>	<b>\$ 290,291</b>	<b>\$ 3,567</b>

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LIABILITIES			
Current maturities of long-term debt	\$	1,626	\$ --
Accounts payable		30,874	--
Accrued compensation		4,960	--
Income taxes payable		799	--
Other current liabilities		15,108	--
Long-term debt		1,826	--
Retirement plan liabilities		2,073	--
Other liabilities		352	--
-----			
TOTAL LIABILITIES ASSOCIATED			
WITH ASSETS "HELD-FOR-SALE"	\$	57,618	\$ --
=====			

(a) June 30, 2007 amounts are predominantly assets and liabilities associated with the Gas Technologies Segment.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

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

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	THREE MONTHS ENDED		
	MARCH 31 2006	JUNE 30 2006	SEPTEMBER 3 2006
Revenues from continuing operations	\$ 682.1	\$ 766.0	\$ 773.0
Income from continuing operations	32.6	53.2	54.0
Diluted Earnings per share from continuing operations	0.39	0.63	0.63

H. INCOME TAXES

The Company adopted the provisions of FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), effective January 1, 2007. As a result of the adoption, the Company recognized a cumulative effect reduction to the January 1, 2007 retained earnings balance of \$0.5 million. As of the adoption date, the Company had gross tax-affected unrecognized income tax benefits of \$46.0 million, of which \$17.8 million, if recognized, would affect the Company's effective income tax rate. Of this amount, \$0.8 million was classified as current and \$45.2 million was classified as non-current on the Company's balance sheet. While the Company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could be different than the accrued position.

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

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The Company files its income tax returns as prescribed by the tax laws of the jurisdictions in which it operates. With few exceptions, the Company is no longer subject to U.S. and foreign examinations by tax authorities for years through 1999.

During the first quarter of 2007, the U.S. Internal Revenue Service commenced its audit of the Company's U.S. income tax returns for 2004 and 2005. The Company anticipates that this audit will be completed by early 2008.

The Company is involved in a royalty dispute with the Canada Revenue Agency ("CRA"). The Company has initiated settlement discussions with the CRA and they are progressing. It is reasonably possible that these settlement discussions will lead to a resolution of this matter by December 31, 2007 and that the resolution will be favorable to the Company resulting in a significant decrease to the unrecognized tax benefit. It is still too premature to discuss the details of any potential settlement including the quantification of any settlement amounts. This matter is more fully discussed in Note I, "Commitments and Contingencies," to the Consolidated Financial Statements.

### I. COMMITMENTS AND CONTINGENCIES

#### ENVIRONMENTAL

The Company is involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a "potentially responsible party" for certain waste disposal sites. While each of these matters is subject to various uncertainties, it is probable that the Company will agree to make payments toward funding certain of these activities and it is possible that some of these matters will be decided unfavorably to the Company. The Company has evaluated its potential liability, and its financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Consolidated Balance Sheets at June 30, 2007 and December 31, 2006 include accruals of \$4.2 million and \$3.8 million, respectively, for environmental matters. The amounts charged against pre-tax income related to environmental matters totaled \$1.3 million and \$0.5 million for the first six months of 2007 and 2006, respectively.

The liability for future remediation costs is evaluated on a quarterly basis. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. The

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

Company does not expect that any sum it may have to pay in connection with environmental matters in excess of the amounts recorded or disclosed above would have a material adverse effect on its financial position, results of operations or cash flows.

#### ROYALTY EXPENSE DISPUTE

The Company is involved in a royalty expense dispute with the Canada Revenue Agency ("CRA"). The CRA is proposing to disallow certain royalty expense deductions claimed by the Company's Canadian subsidiary on its 1994-1998 tax returns. As of June 30, 2007, the maximum assessment from the CRA for the period

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1994-1998 is approximately \$11.7 million, including tax and interest. The Company has initiated settlement discussions with the CRA and they are progressing. It is reasonably possible that these settlement discussions will lead to a resolution of this matter by December 31, 2007 and that the resolution will be favorable to the Company resulting in a significant decrease to the unrecognized tax benefit. It is still too premature to discuss the details of any potential settlement including the quantification of any settlement amounts.

The Ontario Ministry of Finance ("Ontario") is also proposing to disallow these same royalty expense deductions for the period 1994-1998. As of June 30, 2007, the maximum assessment from Ontario is approximately \$3.6 million, including tax and interest. The Company has filed an administrative appeal of this assessment and will vigorously contest these disallowances. We anticipate that Ontario will approach the settlement and resolution of this matter in a manner consistent with the results obtained in the CRA dispute.

The Company believes that any amount of potential liability regarding this matter has been fully reserved as of June 30, 2007 and, therefore will not have a material adverse impact on the Company's future results of operations or financial condition. In accordance with Canadian tax law, the Company made a payment to the CRA in the fourth quarter of 2005 of \$5.0 million. Additionally, the Company made a payment to the Ontario Ministry of Finance in the first quarter of 2006 for the entire disputed amount. These payments were made for tax compliance purposes and to reduce potential interest expense on the disputed amount. These payments in no way reflect the Company's acknowledgement as to the validity of the assessed amounts.

### DERAILMENT

One of the Company's production rail grinders derailed near Baxter, California on November 9, 2006, resulting in two crew member fatalities and the near total loss of the rail grinder. Government and private investigations into the cause of the derailment are ongoing. The initial clean-up and salvage efforts are completed, although work on environmental remediation is ongoing. Estimated environmental remediation expenses have been recognized in the financial statements as of June 30, 2007. All remaining Company rail grinders have been inspected by the Federal Railroad Administration ("FRA") and each grinder is fully operational. The Company has also conducted its own inspections to ensure that its grinders are safe and in compliance with contractual commitments. The Company believes that the insurance proceeds from the loss of the rail grinder will offset the majority of incurred expenses and contingent liabilities, which have been recognized as of June 30, 2007. Therefore, the Company does not believe that the derailment will have a material adverse effect on its financial position, results of operations or cash flows.

### OTHER

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

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



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the Company, plaintiffs have failed to specifically identify any Company products as the source of their asbestos exposure.

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

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

As of June 30, 2007, there are 26,362 pending asbestos personal injury claims filed against the Company. Of these cases, 25,897 were pending in the New York Supreme Court (a trial court) for New York County in New York State. The other claims, totaling 465, are filed in various counties in a number of state courts, and in certain Federal District Courts (including New York), and those complaints generally assert lesser amounts of damages than the New York State court cases or do not state any amount claimed.

As of June 30, 2007, the Company has obtained dismissal by stipulation, or summary judgment prior to trial, in 17,304 cases.

In view of the persistence of asbestos litigation nationwide, which has not yet been sufficiently addressed either politically or legally, the Company expects to continue to receive additional claims. However, there have been developments during the past several years, both by certain state legislatures and by certain state courts, which could favorably affect the Company's ability to defend these asbestos claims in those jurisdictions. These developments include procedural changes, docketing changes, proof of damage requirements and other changes that require plaintiffs to follow specific procedures in bringing their claims and to show proof of damages before they can proceed with their claim. An example is the action taken by the New York Supreme Court, which is responsible for managing all asbestos cases pending within New York County in the State of New York. This Court issued an order in December 2002 that created a Deferred or Inactive Docket for all pending and future asbestos claims filed by plaintiffs who cannot demonstrate that they have a malignant condition or discernable physical impairment, and an Active or In Extremis Docket for plaintiffs who are able to show such medical condition. As a result of this order, the majority of the asbestos cases filed against the Company in New York County have been moved to the Inactive Docket until such time as the plaintiff can show that they have incurred a physical impairment. As of June 30, 2007, the Company has been listed as a defendant in 298 Active or In Extremis asbestos cases in New York County. The Court's Order has been challenged by plaintiffs.

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

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

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adverse effect on the Company's financial condition, results of operations or cash flows.

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

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

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

#### J. RECONCILIATION OF BASIC AND DILUTED SHARES

	THREE MONTHS ENDED JUNE 30	
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)	2007	2006
Income from continuing operations	\$ 77,043	\$ 53,159
Average shares of common stock outstanding used to compute basic earnings per common share	84,145	83,922
Dilutive effect of stock-based compensation	557	522
Shares used to compute dilutive effect of stock-based compensation	84,702	84,444
Basic earnings per common share from continuing operations	\$ 0.92	\$ 0.63
Diluted earnings per common share from continuing operations	\$ 0.91	\$ 0.63

All outstanding stock options and restricted stock units were included in the computation of diluted earnings per share at June 30, 2007 and 2006.

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K. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PENSION EXPENSE (INCOME) ----- (IN THOUSANDS) -----	THREE MONTHS ENDED JUNE 30		
	U.S. PLANS		INTERNATIONAL PLANS
	2007	2006	2006
Service cost	\$ 783	\$ 922	\$ 2
Interest cost	3,868	3,730	
Expected return on plan assets	(5,641)	(4,985)	
Recognized prior service costs	212	185	
Recognized losses	315	737	
Amortization of transition liability (asset)	--	(91)	
Curtailment/settlement loss	544	78	
-----	-----	-----	-----
Defined benefit pension expense	\$ 81	\$ 576	\$ 2
=====	=====	=====	=====

DEFINED BENEFIT PENSION EXPENSE (INCOME) ----- (IN THOUSANDS) -----	SIX MONTHS ENDED JUNE 30		
	U.S. PLANS		INTERNATIONAL PLANS
	2007	2006	2006
Service cost	\$ 1,526	\$ 1,843	\$ 2
Interest cost	7,733	7,460	
Expected return on plan assets	(11,135)	(9,971)	
Recognized prior service costs	424	371	
Recognized losses	698	1,474	
Amortization of transition liability (asset)	--	(181)	
Curtailment/settlement loss	2,091	78	
-----	-----	-----	-----
Defined benefit pension expense	\$ 1,337	\$ 1,074	\$ 2
=====	=====	=====	=====

Defined benefit pension expense in the second quarter and six months ended June 30, 2007 was \$1.0 million and \$0.3 million, respectively, lower than the comparable 2006 periods. The decreases relate primarily to higher plan asset bases

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

in 2007 resulting from cash contributions and significant returns on plan assets in 2006. The decreases were partially offset by curtailment losses in the U.S. in the Gas Technologies Segment in the first quarter of 2007 as a result of the decision to sell the business, and in the railway track maintenance services and equipment business in the second quarter of 2007.

Defined benefit pension expense in the second quarter and six months ended June 30, 2007 includes \$0.3 million and \$2.2 million, respectively, for the Gas Technologies Segment which has been reclassified to Discontinued Operations. Of the \$2.2 million in expense for the six months ended June 30, 2007, \$1.5 million

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relates to the one-time curtailment loss in the first quarter of 2007. Defined benefit expense in the second quarter and six months ended June 30, 2006 includes \$0.5 million and \$0.9 million, respectively, for the Gas Technologies Segment.

In the quarter ended June 30, 2007, the Company contributed \$0.3 million and \$6.3 million to the U.S. and international defined benefit pension plans, respectively. In the six months ended June 30, 2007, the Company contributed \$0.9 million and \$12.0 million to the U.S. and international defined benefit pension plans, respectively. The Company currently anticipates contributing an additional \$1.5 million and \$11.2 million for the U.S. and international plans, respectively, during the remainder of 2007.

Contributions to multiemployer pension plans during the second quarter and six months ended June 30, 2007 were \$7.5 million and \$11.7 million, respectively. Contributions for defined contribution plans during the second quarter and six months ended June 30, 2007 were \$3.7 million and \$9.3 million, respectively.

POSTRETIREMENT BENEFITS EXPENSE (INCOME)	THREE MONTHS ENDED JUNE 30	
(IN THOUSANDS)	2007	2006
Service cost	\$ 1	\$ 2
Interest cost	45	46
Recognized prior service costs	1	--
Recognized gains	(32)	(9)
Postretirement benefits expense	\$ 15	\$ 39

POSTRETIREMENT BENEFITS EXPENSE (INCOME)	SIX MONTHS ENDED JUNE 30	
(IN THOUSANDS)	2007	2006
Service cost	\$ 2	\$ 3
Interest cost	90	93
Recognized prior service costs	1	1
Recognized gains	(63)	(19)
Postretirement benefits expense	\$ 30	\$ 78

In the quarter ended June 30, 2007, the Company contributed \$63 thousand to the postretirement plans. For the six months ended June 30, 2007, the Company contributed \$139 thousand to the postretirement plans and anticipates contributing approximately \$166 thousand during the remainder of 2007.

### L. NEW FINANCIAL ACCOUNTING STANDARDS ISSUED

FASB Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48")

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in

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accordance with SFAS No. 109, "Accounting for Income Taxes." It prescribes a recognition threshold and measurement attribute for financial statement recognition and disclosure of tax positions taken or expected to be taken on a tax return. The provisions of FIN 48 are required to be applied to all tax positions upon initial adoption with any cumulative effect adjustment to be recognized as an adjustment to retained earnings. FIN 48 is effective for fiscal periods beginning after December 15, 2006 (January 1, 2007 for the Company). The Company implemented FIN 48 effective January 1, 2007 and recognized a cumulative effect reduction to 2007 beginning retained earnings of \$0.5 million.

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

#### SFAS No. 157, "Fair Value Measurements" ("SFAS 157") -----

In September 2006, the FASB issued SFAS 157 to provide a single definition of fair value, establish a framework for measuring fair value in U.S. generally accepted accounting principles ("GAAP"), and expand the disclosure requirements regarding fair value measurements. SFAS 157 is applicable in the application of other accounting pronouncements that require or permit fair value measurements, but does not require new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company), with limited retrospective application required. The Company is currently evaluating the requirements of SFAS 157 and has not yet determined the impact on the consolidated financial statements.

#### SFAS No. 159, "The Fair Value Option for Financial Assets and Financial ----- Liabilities" ("SFAS 159") -----

In February 2007, the FASB issued SFAS 159, which permits all entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option may be applied financial instrument by financial instrument (with limited exceptions), is generally irrevocable, and must be applied to the entire financial instrument. SFAS 159 is effective for fiscal years that begin after November 15, 2007 (January 1, 2008 for the Company). The Company is currently evaluating the requirements of SFAS 159, and has not yet determined the impact on the consolidated financial statements.

#### M. DERIVATIVE INSTRUMENTS

The Company may periodically use derivative instruments to hedge cash flows associated with selling price exposure to certain commodities, as well as cash flows related to foreign currency fluctuations. The Company's commodity derivative activities are subject to the management, direction and control of the Company's Risk Management Committee ("the Committee"). The Committee approves the use of all commodity derivative instruments. During the first quarter of 2007, the Company executed fixed-price swap agreements to hedge cash flows associated with the selling price exposure to certain commodities. The unsecured contracts outstanding at June 30, 2007 mature monthly through November 2007 and are with major financial institutions. The Company may be exposed to credit loss in the event of non-performance by the other parties to the contracts. The Company evaluates the credit worthiness of the counterparties and does not expect default by them. Company policy prohibits the use of derivatives

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for speculative purposes.

As of June 30, 2007, outstanding commodity swap agreements had a notional value of \$20.3 million. Based on the requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), these contracts did not qualify as cash flow hedges as of June 30, 2007. As such, they were marked-to-market with the resulting changes in fair value recorded in cost of sales. Although earnings volatility may occur between fiscal quarters if the derivatives do not qualify as cash flow hedges under SFAS 133, the economic substance of the derivatives provides more predictable cash flows by reducing the Company's exposure to the commodity price fluctuations.

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

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

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

#### FORWARD-LOOKING STATEMENTS

The nature of the Company's business and the many countries in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors which, among others, could cause future results to differ materially from the forward-looking

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

statements, expectations and assumptions expressed or implied herein. Forward-looking statements contained herein could include statements about our management confidence and strategies for performance; expectations for new and existing products, technologies, and opportunities; and expectations regarding growth, sales, cash flows, earnings and Economic Value Added (EVA(R)). These statements can be identified by the use of such terms as "may," "could," "expect," "anticipate," "intend," "believe," or other comparable terms.

Factors which could cause results to differ include, but are not limited to: (1) changes in the worldwide business environment in which the Company operates, including general economic conditions; (2) changes in currency exchange rates, certain commodity prices and costs, interest rates and capital costs; (3) changes in the performance of stock and bond markets that could affect, among other things, the valuation of the assets in the Company's pension plans and the accounting for pension assets, liabilities and expenses; (4) changes in governmental laws and regulations, including environmental, taxes and import tariff standards; (5) market and competitive changes, including pricing

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pressures, market demand and acceptance for new products, services and technologies; (6) unforeseen business disruptions in one or more of the many countries in which the Company operates due to political instability, civil disobedience, armed hostilities or other calamities; (7) the seasonal nature of our business; (8) the successful integration of the Company's strategic acquisitions; and (9) other risk factors listed from time to time in the Company's SEC reports. A further discussion of these, along with other potential factors, can be found in Part II, Item 1A, "Risk Factors," of this Form 10-Q. The Company cautions that these factors may not be exhaustive and that many of these factors are beyond the Company's ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty to update forward-looking statements.

### EXECUTIVE OVERVIEW

The Company's record performance in the second quarter and first six months of 2007 reflected the continued execution of the Company's strategy of growth through increased international diversity and a focused, industrial services-based portfolio, augmented by selective strategic acquisitions. The second quarter results were led by the Minerals & Rail Technologies, Services and Products ("all other") Category and the Access Services Segment.

The Company's second quarter 2007 revenues from continuing operations were a record \$946.1 million. This is an increase of \$180.1 million or 24% over the second quarter of 2006. Income from continuing operations was a record \$77.0 million compared with \$53.2 million in 2006, an increase of 45%. Diluted earnings per share from continuing operations were a record \$0.91, a 44% increase over 2006.

Revenues for the first six months of 2007 were a record \$1.8 billion. This is an increase of \$338.1 million or 23% over the first six months of 2006. Income from continuing operations was a record \$122.5 million, compared with \$85.8 million in the first six months of 2006, a 43% increase. Diluted earnings per share from continuing operations were a record \$1.45, a 42% increase from the first six months of 2006.

Both the second quarter and first six months of 2007 results benefited from improved performance in the Access Services Segment and the February 1, 2007 acquisition of Excell Minerals. The improved performance in the Access Services Segment was due to continued strength in the Company's worldwide non-residential and infrastructure construction and industrial services markets, and positive returns from the Company's increased investment in highly engineered formwork rental systems. Excell Minerals had a significant contribution to earnings in the second quarter due to strong customer demand and favorable pricing resulting from positive market conditions.

Overall global markets remain strong and the Company has a number of expansion opportunities to pursue its prudent acquisition strategy of seeking further accretive bolt-on acquisitions, as well as organic investments in its industrial services platforms. The Company also expects continued strength in its operations for the remainder of 2007, particularly from the Access Services Segment, as well as certain businesses in the Minerals & Rail Technologies, Services and Products ("all other") Category. In addition, the Company expects gradual year-over-year improvement during the remainder of 2007 from the Mill Services Segment as global steel production levels normalize offsetting expected production decreases in North America, and new contracts are signed and work begins.

During the second quarter of 2007, the Company had record net cash provided by operating activities of \$154.9 million, a 35% increase from the \$114.5 million achieved in the second quarter of 2006. For the first six months of 2007, the Company had net cash provided by operating activities of \$196.6 million,

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compared with \$184.3 million for the first six months of 2006, a 7% increase. The Company expects to achieve record cash from operations for the full year 2007, exceeding 2006's record of \$409 million. The Company's cash flows are further discussed in the Liquidity and Capital Resources section.

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

During the first half of 2007, the Company's value-based management system continued to deliver results by creating increased economic value. Significant improvement in Economic Value Added ("EVA(R)") was achieved in the first half of 2007 and the Company's return on invested capital improved 180 basis points from the comparable 2006 period. The Company's value-based management system is more fully described in the 2006 Annual Report.

During the first quarter of 2007, the Company's Board of Directors approved the divestiture of the Gas Technologies manufacturing business, which is expected to occur in the second half of 2007. Also, effective in the first quarter of 2007, there was a two-for-one stock split for which one additional share of common stock was issued to stockholders as of March 26, 2007.

#### SEGMENT OVERVIEW

The Access Services Segment's revenues in the second quarter of 2007 were \$360.9 million compared with \$269.7 million in the second quarter of 2006, a 34% increase. Operating income increased by 35% to \$49.3 million, from \$36.7 million in the second quarter of 2006. Operating margins for the Segment improved by 10 basis points to 13.7% from 13.6% in the second quarter of 2006. In comparison with the first six months of 2006, this Segment achieved period-over-period revenue growth of \$181.7 million or 37%, and operating income growth of \$30.9 million or 58%. Operating margins for the first six months of 2007 improved by 170 basis points to 12.5% from 10.8% for the first six months of 2006. The record performance in revenues, operating income and operating margins for the second quarter and first six months of 2007 was due principally to continued strength in the Company's worldwide non-residential and infrastructure construction and industrial services markets, particularly in Europe and North America. This Segment accounted for 38% and 38% of the Company's revenues and 36% and 38% of the operating income for the second quarter and first six months of 2007, respectively.

Revenues for the second quarter of 2007 for the Mill Services Segment were \$380.8 million compared with \$344.3 million in the second quarter of 2006, an 11% increase. Operating income decreased by 5% to \$36.7 million, from \$38.5 million in the second quarter of 2006, and operating margins decreased by 160 basis points to 9.6% from 11.2%. In comparison with the first six months of 2006, this Segment's revenue increased by 11% to \$741.6 million. Operating income in the first six months of 2007 decreased by 4% to \$69.0 million from \$72.1 million in the first six months of 2006, and operating margins decreased 150 basis points to 9.3% from 10.8%. Performance was negatively impacted by higher operating and maintenance costs, lower steel production in certain regions, particularly North America, and unplanned maintenance outages at a number of mill sites. This Segment accounted for 40% and 41% of the Company's revenues and 27% and 31% of the operating income for the second quarter and first six months of 2007, respectively.

The Minerals & Rail Technologies, Services and Products ("all other") Category's revenues in the second quarter of 2007 were \$204.4 million compared with \$152.1 million in the second quarter of 2006, a 34% increase. Operating income increased by 130% to \$50.5 million, from \$22.0 million in the second quarter of 2006. For the second quarter of 2007, operating margins increased 1,020 basis



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points to 24.7% from 14.5% in the second quarter of 2006. For the first six months of 2007, operating margins increased 570 basis points to 19.0% from 13.3% in the first six months of 2006. The February 1, 2007 acquisition of Excell Minerals, which performed well due to strong customer demand and favorable pricing resulting from strong market conditions, contributed to this Category's improved performance in the second quarter and first six months of 2007. Three of the other five businesses contributed higher revenues, and four of the five businesses contributed higher operating income in the second quarter and first six months of 2007 compared with the second quarter and first six months of 2006. Additionally, this Category benefited from a \$3.2 million pre-tax gain on the sale of an asset in the second quarter of 2007. This Category accounted for 22% and 21% of the Company's revenues and 37% and 31% of the operating income for the second quarter and first six months of 2007, respectively.

In comparison to the second quarter of 2006, the impact of foreign currency translation for the Company increased second quarter 2007 sales and pre-tax income by \$35.2 million and \$4.1 million respectively. For the first six months of 2007, the impact of foreign currency translation increased sales by \$71.7 million and pre-tax income by \$6.0 million compared with the same period in 2006.

### OUTLOOK OVERVIEW

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

Both international and domestic Access Services activity remains strong. Operating performance in 2007 for this Segment has benefited, and is expected to continue to benefit, from increased non-residential and infrastructure

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

construction spending and industrial services activity in the Company's major markets; selective strategic investments or acquisitions in new markets and expansion of current product lines; further market penetration from new products; product cross-selling opportunities among the markets served by the three Access Services divisions; and enterprise business optimization opportunities including new technology applications, consolidated procurement, logistics and continuous process improvement initiatives. Further global expansion and market share gains are also expected from this Segment.

Overall, the outlook for the Mill Services Segment for the remainder of the year remains positive. To maintain pricing levels, a more disciplined and consolidated steel industry has been adjusting production levels to bring inventories in-line with current demand. On an overall basis, the Company expects global steel production to increase modestly in 2007, which would generally have a favorable effect on this Segment's revenues. In addition, new contract signings and start-ups are expected to have a positive impact on results in the second half of 2007. The Company continues to engage in enterprise business optimization initiatives designed to improve operating results and margins. However, the Company may experience higher operating costs, such as maintenance and energy that could have a negative impact on operating margins, to the extent these costs cannot be passed to customers.

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The outlook for the Minerals & Rail Technologies, Services and Products ("all other") Category remains positive. Second half performance is again expected to continue to be led by Excell Minerals and the railway track maintenance services and equipment business. Excell Minerals is expected to continue to be accretive to earnings in the second half of 2007, as full integration into the Company occurs. While Excell Minerals is not expected to operate at the full capacity levels that it did in the second quarter, and metal prices are not expected to remain at the high levels seen in that quarter, the business is expected to be a positive contributor to third quarter and second half 2007 growth for this Category. Likewise, the railway track maintenance services and equipment business should continue to see improved year-over-year operating performance in 2007's remaining quarters, as well as longer term. New contract bidding activity for the business remains high (including the signing of a significant order from China in the second quarter of 2007), which also adds confidence to the longer-term outlook. The remaining businesses within this group are also expected to continue to operate at their current high levels of operating effectiveness.

The stable or improved market conditions for most of the Company's services and products and the significant investments made recently for acquisitions and growth-related capital expenditures provide the base for achieving the Company's stated 2007 growth objectives in diluted earnings per share from continuing operations and net cash provided by operating activities. The record performance for revenue and operating income achieved in the first six months of 2007 provides a solid foundation towards achieving the full-year objectives.

REVENUES BY REGION

(DOLLARS IN MILLIONS)	TOTAL REVENUES THREE MONTHS ENDED JUNE 30		PERCENTAGE GROWTH FROM 2006 TO 2007	
	2007	2006	VOLUME	CURRENCY
Europe	\$ 474.3	\$ 392.7	13.4%	7.4%
North America	338.6	266.7	26.8	0.2
Latin America	52.3	41.3	18.7	7.8
Middle East and Africa	51.2	38.6	34.7	(2.2)
Asia/Pacific	29.7	26.7	(0.4)	11.7
Total	\$ 946.1	\$ 766.0	18.9%	4.6%

REVENUES BY REGION

(DOLLARS IN MILLIONS)	TOTAL REVENUES SIX MONTHS ENDED JUNE 30		PERCENTAGE GROWTH FROM 2006 TO 2007	
	2007	2006	VOLUME	CURRENCY
Europe	\$ 917.8	\$ 735.6	15.8%	9.0%
North America	615.6	500.2	23.1	0.0
Latin America	97.8	81.5	15.7	4.3
Middle East and Africa	92.6	79.5	20.2	(3.7)
Asia/Pacific	62.4	51.3	11.9	9.7

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Total	\$ 1,786.2	\$ 1,448.1	18.4%	4.9%
=====	=====	=====	=====	=====

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

#### 2007 HIGHLIGHTS

The following significant items affected the Company overall during the second quarter and first six months of 2007, in comparison with the second quarter and first six months of 2006:

#### COMPANY WIDE:

- o Continued strong worldwide economic activity, as well as the strong earnings performance of the Excell Minerals acquisition, benefited the Company in the second quarter and first six months of 2007. This included increased access equipment services, especially in North America and Europe; increased global demand for railway track maintenance services and equipment; and increased demand for air-cooled heat exchangers and industrial grating products.
- o Consistent with its overall strategic focus on global industrial services businesses, the Company announced in January 2007 its intention to divest the Gas Technologies manufacturing business group.
- o During the first six months of 2007, international sales and operating income were 68% and 66%, respectively, of total sales and operating income. This compares with the first six months of 2006 levels of 68% of sales and 75% of operating income. The Excell Minerals acquisition, based principally in the U.S., and the performance of the U.S. Access Services business have increased the percentage of domestic operating income in 2007.

#### ACCESS SERVICES SEGMENT:

(DOLLARS IN MILLIONS)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30
	2007	2006	2007
Revenues	\$ 360.9	\$ 269.7	\$ 677.1
Operating income	49.3	36.7	84.3
Operating margin percent	13.7%	13.6%	12.5%

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

(IN MILLIONS)	THREE MONTHS ENDED JUNE 30
Revenues - 2006	\$ 269.7
Net increased volume and new business	53.9
Acquisitions	23.3

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Impact of foreign currency translation	14.1
Other	(0.1)
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Revenues - 2007	\$ 360.9
=====	

ACCESS SERVICES SEGMENT - SIGNIFICANT IMPACTS ON OPERATING INCOME:

- o In the second quarter and first six months of 2007, the international access services business, and Eastern Europe in particular, continued to improve due to increased non-residential and infrastructure construction spending. The Company has also benefited from its recent rental equipment capital investments made in these markets. Equipment rentals, particularly in the construction sector, are the highest margin revenue source in this Segment.
- o The North American non-residential construction and industrial services markets continued strong in the second quarter and first six months of 2007. This had a positive effect on volume which caused overall margins and operating income in North America to improve.
- o The 2006 MyATH (Chile) and Cleton (Northern Europe) acquisitions were accretive to earnings in the second quarter and first six months of 2007.
- o The impact of foreign currency translation in the second quarter and first six months of 2007 increased operating income for this Segment by \$1.8 million and \$2.7 million, respectively, compared with the second quarter and first six months of 2006.

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HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

MILL SERVICES SEGMENT:

(DOLLARS IN MILLIONS)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30
	2007	2006	2007
Revenues	\$ 380.8	\$ 344.3	\$ 741.6
Operating income	36.7	38.5	69.0
Operating margin percent	9.6%	11.2%	9.3%
=====			

MILL SERVICES SEGMENT - SIGNIFICANT IMPACTS ON REVENUES

(IN MILLIONS)	THREE MONTHS ENDED JUNE 30
Revenues - 2006	\$ 344.3
Impact of foreign currency translation	19.5
Increased volume and new business	8.0

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Acquisitions	9.0
-----	
Revenues - 2007	\$ 380.8
=====	

MILL SERVICES SEGMENT - SIGNIFICANT IMPACTS ON OPERATING INCOME:

- o Despite overall increased volume, operating income for the second quarter and first six months of 2007 was negatively impacted by increased operating and maintenance expenses, unplanned outages at a number of mills, and lower steel production in certain regions, particularly in North America.
- o Foreign currency translation in the second quarter and first six months of 2007 increased operating income for this Segment by \$2.3 million and \$4.0 million, respectively, compared with the second quarter and first six months of 2006.

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

(DOLLARS IN MILLIONS)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30
	2007	2006	2007
Revenues	\$ 204.4	\$ 152.1	\$ 367.5
Operating income	50.5	22.0	69.9
Operating margin percent	24.7%	14.5%	19.0%

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

SIGNIFICANT IMPACTS ON REVENUES

(IN MILLIONS)	THREE MONTHS ENDED JUNE 30
Revenues - 2006	\$ 152.1
Acquisitions	40.0
Industrial grating products	6.9
Air-cooled heat exchangers	6.2
Railway track maintenance services and equipment	(0.1)
Impact of foreign currency translation	1.6
Roofing granules and abrasives	(2.4)
Boiler and process equipment	(0.7)
Other	0.8
Revenues - 2007	\$ 204.4

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

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- o The Excell Minerals acquisition was accretive to the Category's performance in the second quarter and first six months of 2007. During the second quarter of 2007, Excell Minerals had record volumes due to strong customer demand for the division's high-value materials as well as favorable market pricing. Additionally, during the entire quarter, Excell's major processing locations operated at maximum capacity.
- o This Category benefited from a \$3.2 million pre-tax gain on the sale of an asset in the second quarter of 2007.
- o Operating income of the air-cooled heat exchangers business continued to benefit from increased volume resulting from a strong natural gas market during the second quarter and first six months of 2007.
- o Increased second quarter and first six months 2007 operating income for the industrial grating products business was due principally to strong demand, partially offset by higher material costs.
- o The railway track maintenance services and equipment business delivered increased income in the second quarter and first six months of 2007 compared with the second quarter and first six months of 2006, due to increased volume and reduced operating expenses for contract services, partially offset by lower equipment sales volume.
- o Despite lower volume for the roofing granules and abrasives business in the second quarter and first six months of 2007, operating income increased due to price increases necessitated by higher costs.
- o Operating income for the boiler and process equipment business was slightly lower in the second quarter and first six months of 2007 compared with the comparable periods for 2006, due to decreased equipment sales and increased commodity costs.
- o Foreign currency translation in the second quarter and first six months of 2007 increased operating income for this Category by \$0.5 million and \$0.7 million, respectively, compared with the second quarter and first six months of 2006.

### OUTLOOK, TRENDS AND STRATEGIES

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

#### COMPANY WIDE:

- o The Company will continue its disciplined focus on expanding the industrial services businesses, with a particular emphasis on growing the Access Services and Mill Services Segments, especially in emerging economies, and other specialized services. Growth is expected to be achieved through the provision of additional services to existing customers, new contracts in both developed and emerging markets, and strategic acquisitions, such as the February 2007 acquisition of Excell Minerals. Additionally, new higher-margin service and sales opportunities in railway track maintenance services and equipment will be pursued globally.

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

- o In January 2007, the Company announced its intention to divest the Gas Technologies manufacturing business. This decision is consistent with the Company's overall strategic focus on industrial services businesses. The divestiture is expected to be completed in the second half of 2007.
- o The Company will continue to invest in selective strategic acquisitions and growth capital investments; however, management will continue to be very selective in allocating capital, choosing projects with the highest

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- Economic Value Added ("EVA(R)") potential.
- o A strong focus on corporate-wide expansion into emerging economies is expected in the coming years. More specifically, within the next three to five years, a focused strategy of the Company is to approximately double its presence in the Latin American, Asia-Pacific, Middle East and Africa, and Eastern European markets to approximately 30% of total revenues.
  - o The Company will continue to implement enterprise business optimization initiatives across the Company to further enhance margins for most businesses, especially the Mill Services Segment. These initiatives include improved supply-chain and logistics management and added emphasis on global procurement. The Company will continue to use its increased size and leverage due to recent acquisitions to reduce procurement costs and focus on additional opportunities for cost reductions via procurement in low-cost countries.
  - o The Company expects strong cash flow from operating activities in 2007, exceeding the record of \$409 million achieved in 2006. This, combined with the expected cash from the Gas Technologies Segment divestiture, as well as other asset sales, will support both the Company's growth initiatives and help reduce debt.
  - o The continued growth of the Chinese steel industry, as well as other Asian emerging economies, could impact the Company in several ways. Increased steel mill production in China, and in other Asian countries, may provide additional service opportunities for the Mill Services Segment. However, increased Asian steel exports could result in lower steel production in other parts of the world, affecting the Company's customer base. Additionally, continued increased Chinese economic activity may result in increased commodity costs in the future, which may adversely affect the Company's manufacturing businesses. The potential impact of these risks is currently unknown.
  - o Volatility in energy and commodity costs (e.g., fuel, natural gas, steel, etc.) and worldwide demand for these commodities could have an adverse effect on the Company's operating costs and ability to obtain the necessary raw materials. Cost increases could result in reduced operating income for certain products, to the extent that such costs cannot be passed on to customers. The effect of continued Middle East armed hostilities on the cost of fuel and commodities is currently unknown, but it could have a significant effect.
  - o The armed hostilities in the Middle East could also have a significant effect on the Company's operations in the region. The potential impact of this risk is currently unknown. This exposure is further discussed in Part II, Item 1A, "Risk Factors."
  - o Foreign currency translation had an overall favorable effect on the Company's sales, operating income and Stockholders' Equity during the first half of 2007. If the U.S. dollar strengthens, particularly in relationship to the euro or British pound sterling, the impact on the Company would generally be negative in terms of reduced sales, income and Stockholders' Equity.
  - o Total pension expense (defined benefit, defined contribution and multi-employer) for 2007 is expected to be higher than the 2006 level due to increased volume which affects defined contribution and multi-employer pension expense. On a comparative basis, total pension expense in the first half of 2007 was \$4.9 million higher than the first half of 2006 due principally to increased defined contribution and multi-employer pension expense resulting from increased volume in the Access Services Segment and \$1.5 million as a result of a one-time curtailment loss in the first quarter of 2007 related to the Gas Technologies Segment.
  - o Defined benefit pension expense decreased \$0.3 million in the first half of 2007 compared to the first half of 2006 due primarily to higher plan asset bases in 2007 resulting from cash contributions and significant returns on plan assets in 2006. The decreases were partially offset by plan curtailment losses in the U.S. in the Gas Technologies Segment and in the railway track maintenance services and equipment business. Defined benefit

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pension expense is expected to decline for the full year 2007 compared with 2006 due to the significant level of cash contributions, including voluntary cash contributions to the defined benefit pension plans (approximately \$10.6 million during 2006 and \$16.9 million during 2005, mostly to the U.K. plan), which will have a positive effect on current and future years' pension expense, as well as the higher-than-expected plan asset returns in 2006. The Company's pension task force continues to evaluate alternative strategies to further mitigate overall pension expense, including the on-going evaluation of investment fund managers' performance; the balancing of plan assets and liabilities; the risk assessment of all multi-employer pension plans; the possible merger of certain plans; the consideration of incremental cash contributions to certain plans; and other changes that should mitigate future volatility and expense.

- o Changes in worldwide interest rates, particularly in the U.S. and Europe, could have a significant effect on the Company's overall interest expense, as approximately 58% of the Company's borrowings are at variable interest rates as of June 30, 2007 (in comparison to approximately 48% at December 31, 2006). The Company manages the mix of fixed-rate and floating-rate debt to preserve adequate funding flexibility, as well as control the effect of interest-rate changes on consolidated interest expense.

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

#### ACCESS SERVICES SEGMENT:

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

#### MILL SERVICES SEGMENT:

- o To maintain pricing levels, a more disciplined and consolidated steel industry has been adjusting production levels to bring inventories in-line with current demand. On an overall basis, the Company expects global steel production to increase modestly in 2007, which would generally have a favorable effect on this Segment's revenues.
- o Further consolidation in the global steel industry is possible. Should additional transactions occur involving some of the steel industry's larger companies that are customers of the Company, it would result in an increase in concentration of revenues and credit risk for the Company. If a large customer were to experience financial difficulty, or file for bankruptcy protection, it could adversely impact the Company's income, cash flows and asset valuations. As part of its credit risk management practices, the Company closely monitors the credit standing and accounts receivable position of its customer base. Further consolidation may also increase pricing pressure on the Company and the competitive risk of services contracts which are due for renewal. Conversely, such consolidation may provide additional service opportunities for the Company as the Company believes it is well-positioned competitively.
- o The Company will continue to place significant emphasis on improving operating margins of this Segment. Margin improvements are most likely to be achieved through internal enterprise business optimization efforts such as global procurement initiatives; process improvements; margin-bottom: -11pt; '> be senior obligations of the relevant Subsidiary Guarantor in the case of senior debt securities



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be the unsecured and unsubordinated obligations of the relevant Subsidiary Guarantor in the case

rank equally (or pari passu) with all other existing and future unsubordinated and unsecured indebtedness of the Subsidiary Guarantor, respectively in the case of senior unsecured debt securities; and

with respect to any series of debt securities that is designated as subordinated, be junior and subordinate to any senior indebtedness on the same basis as such debt securities are junior and subordinated to any

The obligations of each Subsidiary Guarantor under its guarantee will be limited as necessary to prevent that guarantee from constituting a fraudulent conveyance or fraudulent transfer under applicable law.

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**DESCRIPTION OF SHARE CAPITAL**

The following description summarizes the most important terms of our share capital. Because it is only a summary, it does not contain all the information that may be important to you. For a complete description, you should refer to our amended and restated memorandum and articles of association, a copy of which has been filed with the SEC, and the applicable provisions of the Companies Law, 2013 Revision, as amended (the "Companies Law").

**General**

As of the date of this registration statement, we are authorized to issue 200,000,000 ordinary shares, par value \$0.00001 per share, and 230,000 preferred shares, par value \$0.00001 per share. As of April 30, 2015 there were 33,801,727 ordinary shares outstanding, held of record by 129 shareholders, although we believe that there may be a significantly larger number of beneficial owners of our ordinary shares. As of April 30, 2015 there were no preferred shares outstanding.

**Meetings of Shareholders**

Subject to our regulatory requirements, an annual general meeting and any extraordinary general meeting shall be called by not less than ten days' nor more than 60 days' notice. Notice of every general meeting will be given to all of our shareholders, our directors and our principal external auditors. Extraordinary general meetings may be called only by the chairman of our board of directors, the chief executive officer or a majority of our board of directors, and may not be called by any other person.

Alternatively, subject to applicable regulatory requirements, a meeting will be deemed to have been duly called if it is so agreed (i) in the case of a meeting called as an annual general meeting, by all of our shareholders (or their proxies) entitled to attend and vote at the meeting, or (ii) in the case of an extraordinary meeting, by a majority in number of our shareholders (or their proxies) having a right to attend and vote at the meeting, being a majority together holding not less than 95% of the voting shares.

At any general meeting, shareholders entitled to vote and present in person or by proxy that represent not less than a majority of our issued and outstanding voting shares will constitute a quorum. No business may be transacted at any general meeting unless a quorum is present at the commencement of business.

A corporation being a shareholder shall be deemed for the purpose of our amended and restated memorandum and articles of association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting or at any relevant general meeting of any class of our shareholders. Such duly authorized representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual shareholder.

The quorum for a separate general meeting of the holders of a separate class of shares is described in "Modification of Rights" below.

**Voting Rights Attaching to the Shares**

Subject to any special rights or restrictions as to voting then attached to any shares, at any general meeting every shareholder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) shall have one vote per ordinary share. The holders of preferred shares shall have limited voting rights as set out in our amended and restated memorandum and articles of association.

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No shareholder shall be entitled to vote or be deemed to be part of a quorum, in respect of any share, unless such shareholder is registered as our shareholder at the applicable record date for that meeting and all calls or installments due by such shareholder to us, if any, have been paid.

If a clearing house or depository (or its nominee(s)) is our shareholder, it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting or at any meeting of any class of shareholders, provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision is entitled to exercise the same powers on behalf of the recognized clearing house or depository (or its nominee(s)) as if such person was the registered holder of our shares held by that clearing house or depository (or its nominee(s)), including the right to vote individually on a show of hands.

While there is nothing under the laws of the Cayman Islands that specifically prohibits or restricts the creation of cumulative voting rights for the election of our directors, unlike the requirement under Delaware law that cumulative voting for the election of directors is permitted only if expressly authorized in the certificate of incorporation, it is not a concept that is accepted as a common practice in the Cayman Islands, and we have made no provisions in our amended and restated memorandum and articles of association to allow cumulative voting for such elections.

**Protection of Minority Shareholders**

The Grand Court of the Cayman Islands may, on the application of shareholders holding not less than one fifth of our shares in issue, appoint an inspector to examine our affairs and report thereon in a manner as the Grand Court shall direct.

Any shareholder may petition the Grand Court of the Cayman Islands which may make a winding up order, if the court is of the opinion that it is just and equitable that we should be wound up.

Claims against us by our shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our amended and restated memorandum and articles of association.

Our Cayman Islands counsel, Maples and Calder, is not aware of any reported class action having been brought in a Cayman Islands court. Derivative actions have been brought in the Cayman Islands courts, and the Cayman Islands courts have confirmed the availability for such actions. In most cases, the company will be the proper plaintiff in any claim based on a breach of duty owed to it, and a claim against (for example) the company's officers or directors usually may not be brought by a shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority and be applied by a court in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

a company is acting, or proposing to act, illegally or beyond the scope of its authority;

the act complained of, although not beyond the scope of the authority, could be effected if duly authorized by more than the number of votes which have actually been obtained; or

those who control the company are perpetrating a "fraud on the minority."

**A shareholder may have a direct right of action against the company where the individual rights of that shareholder have been infringed or are about to be infringed.**

**Pre-emption Rights**

There are no pre-emption rights applicable to the issue of new shares under either Cayman Islands law or our amended and restated memorandum and articles of association.

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**Liquidation Rights**

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation applicable to any class or classes of shares (i) if we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu among our shareholders in proportion to the amount paid up at the commencement of the winding up on the shares held by them, respectively, and (ii) if we are wound up and the assets available for distribution among our shareholders as such are insufficient to repay the whole of the paid-up capital, those assets shall be distributed so that, as nearly as may be, the losses shall be borne by our shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them, respectively.

If we are wound up, the liquidator may with the sanction of an ordinary resolution and any other sanction required by the Companies Law, divide among our shareholders in specie or kind the whole or any part of our assets (whether they shall consist of assets of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any assets to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also, with the sanction of an ordinary resolution, vest any part of these assets in trustees upon such trusts for the benefit of our shareholders as the liquidator shall think fit, but so that no shareholder will be compelled to accept any assets, shares or other securities upon which there is a liability.

**Modification of Rights**

Except with respect to share capital (as described below), alterations to our amended and restated memorandum and articles of association may only be made by special resolution of no less than two-thirds of votes cast at a meeting of our shareholders at which a quorum is present.

Subject to the Companies Law and our amended and restated memorandum and articles of association, all or any of the special rights attached to shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified or abrogated with the sanction of a resolution passed by a majority of not less than two-thirds of the votes cast passed at a separate meeting of the holders of the shares of that class at which a quorum is present. The provisions of our amended and restated memorandum and articles of association relating to general meetings shall apply similarly to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting or at its adjourned meeting shall be a person or persons together holding (or represented by proxy) not less than a majority in nominal value of the issued shares of that class, every holder of shares of the class shall be entitled on a poll to one vote for every such share held by such holder and that any holder of shares of that class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares with the same rights and privileges.

**Alteration of Capital**

We may from time to time by ordinary resolution:

increase our capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;

consolidate and divide all or any of our share capital into shares of larger amount than our existing shares;

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cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of the shares so cancelled, subject to the provisions of the Companies Law;

subdivide our shares or any of them into shares of a smaller amount than is fixed by our amended and restated memorandum and articles of association, subject to the Companies Law, and so that the resolution whereby any share is subdivided may determine that, as between the holders of the share resulting from such subdivision, one or more of the shares may have any such preference or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with, the others as we have power to attach to unissued or new shares; and

divide shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, attach to the shares respectively as preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination in general meeting may be determined by our directors.

We may, by special resolution, subject to any confirmation or consent required by the Companies Law, reduce our share capital or any capital redemption reserve in any manner authorized by law.

**Transfer of Shares**

Subject to any applicable restrictions set forth in our amended and restated memorandum and articles of association, any of our shareholders may transfer all or a portion of their shares by an instrument of transfer in the usual or common form or in a form prescribed by the Nasdaq Global Market or in any other form which our directors may approve.

Our directors may, in their absolute discretion, decline to register any transfer of shares, subject to any applicable requirements imposed from time to time by the Securities and Exchange Commission, the Nasdaq Global Market or any recognized stock exchange on which our securities are listed. If our directors refuse to register a transfer, they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may be suspended and the register closed at such times and for such periods as our directors may from time to time determine; provided, however, that registration shall not be suspended for more than forty-five days in any year.

**Share Repurchase**

We are empowered by the Companies Law and our amended and restated memorandum and articles of association to purchase our own shares, subject to certain restrictions. Our directors may only exercise this power on our behalf, subject to the Companies Law, our amended and restated memorandum and articles of association and to any applicable requirements imposed from time to time by the Securities and Exchange Commission, the Nasdaq Global Market or any recognized stock exchange on which our securities are listed.

**Dividends**

Subject to the Companies Law, we may declare dividends in any currency to be paid to our shareholders but no dividend shall be declared in excess of the amount recommended by our directors. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits that our directors determine is no longer needed. Our board of directors may also declare and pay dividends out of the share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

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**Governance Agreement**

The Governance Agreement by and between Glaxo Group Limited and us, dated March 3, 2014 (the "Governance Agreement") contains agreements relating to future acquisitions or dispositions and voting of our securities by GSK, and exempts GSK from triggering our rights agreement until December 31, 2017 (as further described under "Rights Agreement" below), among other matters. Except as otherwise noted below, the provisions of the Governance Agreement described below will terminate at the earliest of (i) when GSK beneficially owns 100% of our outstanding voting shares, (ii) the effective time of a change in control of us and (iii) December 31, 2017.

***Voting Arrangements***

GSK has agreed to vote the voting shares held by them (at their election) either (i) in accordance with the recommendation of our independent directors or (ii) in proportion to the votes cast by the other holders of our voting shares; however, GSK can vote as it chooses on any matter involving:

any proposal to issue equity securities to one or more parties (other than in a public offering) that would result in that party or parties owning or having the right to acquire 20% or more of the aggregate voting power of all of our equity securities; or

a change in control of us.

In addition, for so long as GSK owns 50.1% or more of our voting shares, it can also vote as it chooses on any matter involving:

an acquisition by us of any business or assets that would constitute a substantial portion of our business or our assets; or

the sale, lease, license, transfer or otherwise disposal of all or a substantial portion of our business or our assets (other than a sale, lease, license or transfer of assets in the ordinary course of our business).

If a person or group acquires 20% or more of our voting shares, GSK may vote its voting shares without any restrictions. GSK has granted an irrevocable proxy coupled with an interest in all voting shares owned by them to our board of directors. This proxy will enable the proxyholder to vote or otherwise act with respect to all of the voting shares of GSK in the manner required by the Governance Agreement.

***Limitations and Exceptions to Rights to Acquire Our Securities***

*Limitation on Acquisition of Our Equity Securities*

Except as expressly permitted by the Governance Agreement or as agreed to by us in writing following approval by a majority of our independent directors, GSK may not, directly or indirectly:

acquire any of our equity securities;

make or participate in any solicitation of proxies to vote from any holders of our equity securities;

form or participate in a group with any person not bound by the terms of the Governance Agreement (other than GSK's affiliates) with respect to any of our voting shares;

acquire any of our assets or rights to purchase any of our assets except for assets offered for sale by us;

enter into any arrangement or understanding with others to do any of the actions listed immediately above; or



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act in concert with others to offer to us or any of our shareholders any business combination, restructuring, recapitalization or similar transaction involving us or otherwise seek in concert with others to control, change or influence the management, board of directors or our policies or nominate any person as a director who is not nominated by the then incumbent directors, or propose any matter to be voted upon by our shareholders.

*Permitted Purchases of Our Equity Securities from Us*

GSK may acquire our equity securities from us in the following circumstances:

if we issue equity securities to a third party (other than equity awards issued as compensation to our directors, officers, employees or consultants), including securities offered by this prospectus, GSK has rights to advance notice and to purchase from us all or a portion of the number of equity securities that would bring their percentage ownership of our voting shares to the same level that it was at immediately prior to the issuance of equity securities to the third party at the same price at which the equity securities were sold to the third party;

the purchase, on a quarterly basis, of equity securities comparable to those that are issued as compensation to our directors, officers, employees or consultants during the preceding quarter pursuant to option exercises, settlement of restricted stock unit awards and vesting of restricted stock, at the fair market value at the time of GSK's notification to us of its intention to purchase such equity securities that would bring their percentage ownership of our voting shares to the same level that it was at immediately prior to such issuances or vesting;

the acquisition of additional equity securities issued in connection with a share split or recapitalization; and

the purchase of equity securities for a pension plan or benefit plan for the benefit of GSK's employees.

*Permitted Purchases of Equity Securities from Our Shareholders*

GSK may acquire our equity securities from our shareholders in the following circumstances:

the acquisition of securities of another biotechnology or pharmaceutical company that owns our equity securities (provided that those shares will be subject to the provisions of the Governance Agreement); or

the making of an offer to acquire equity securities if (i) a person or group (other than GSK) acquires 20% or more of our voting shares or (ii) our board of directors formally takes certain actions to facilitate a change in control of us (other than with GSK), subject to the following conditions:

that the offer be an offer for 100% of our voting shares;

that the offer include no condition as to financing; and

that the offer includes a condition that the holders of a majority of the voting shares not owned by GSK accept the offer by tendering their shares or voting their shares in favor of the offer.

The term "change in control" is referred to as (i) any transaction or series of related transactions (including mergers, consolidations and other forms of business consolidations) after which our continuing shareholders hold less than 50% of the outstanding voting securities of either us or the entity that survives the transaction (or the parent of the surviving entity) or (ii) subject to certain exceptions, the sale, lease, license, transfer or other disposal of all or substantially all of our business or assets other than to our majority owned and controlled subsidiaries.



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The term "equity securities" is referred to as (i) any of our voting shares, (ii) our securities convertible into or exchangeable for voting shares, and (iii) options, rights and warrants issued by us to acquire voting shares.

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**Registration Rights Agreement**

Ordinary shares issued to GSK are entitled to the rights set forth in the Registration Rights Agreement by and between GSK and us, dated March 3, 2014 (the "Registration Rights Agreement"). The rights under the Registration Rights Agreement will expire on December 31, 2024, or if GSK or its permitted assigns each hold one and a half percent or less of our then outstanding ordinary shares, if each such holder can sell its shares in a single transaction pursuant to Rule 144 under the Securities Act.

***Demand Registration Rights***

Under the Registration Rights Agreement, GSK and its permitted assigns have the right to require that we register their ordinary shares, provided such demand comes from holders of at least 50% of the aggregate shares held by GSK and its permitted assigns and such registration relates to ordinary shares having an anticipated aggregate offering price of \$10 million. We are only obligated to effect one registration in response to these demand registration rights (subject to certain exceptions). We may postpone the filing of a registration statement for up to 90 days once in any 12-month period if our board of directors determines in good faith that the filing would be seriously detrimental to our shareholders or us. The underwriters of any underwritten offering have the right to limit the number of shares to be included in a registration statement filed in response to the exercise of these demand registration rights. We must pay all expenses, except for underwriters' discounts and commissions, incurred in connection with these demand registration rights.

***Piggyback Registration Rights***

If we register any securities for public sale, under the Registration Rights Agreement GSK has the right to include its shares in the registration, subject to specified exceptions. The underwriters of any underwritten offering have the right to limit the number of shares registered by GSK and its permitted assigns (but to no less than 25% of the shares to be registered in such registration) due to marketing reasons. We must pay all expenses, except for underwriters' discounts and commissions, incurred in connection with these piggyback registration rights.

***S-3 Registration Rights***

While we are eligible to file a registration statement on Form S-3, under the Registration Rights Agreement GSK and its permitted assigns can request that we register their shares, provided that such registration request is made by holders of not less than 10% in aggregate of GSK's and its permitted assigns shares and the total price of the ordinary shares offered to the public is at least \$10 million. GSK and its permitted assigns may only require us to file two Form S-3 registration statements in any 12-month period. We may postpone the filing of a Form S-3 registration statement for up to 90 days once in any 12-month period if our board of directors determines in good faith that the filing would be seriously detrimental to our shareholders or us. We must pay all expenses, except for underwriters' discounts and commissions, incurred in connection with these F-3 registration rights.

**Rights Agreement**

Under our rights agreement, each ordinary share has associated with it one preferred share purchase right. Each of these rights entitles its holder to purchase, at a price of \$225.00 for each, one one-thousandth of a share of Series A junior participating preferred, (each subject to adjustment) under circumstances provided for in the rights agreement. The purpose of our rights agreement is to:

give our board of directors the opportunity to negotiate with any persons seeking to obtain control of us;

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deter acquisitions of voting control of us without assurance of fair and equal treatment of all of our shareholders; and

prevent a person from acquiring in the market a sufficient amount of voting power over us to be in a position to block an action sought to be taken by our shareholders.

The exercise of the rights under our rights agreement would cause substantial dilution to a person attempting to acquire us on terms not approved by our board of directors, and therefore would significantly increase the price that such person would have to pay to complete the acquisition. Our rights agreement may deter a potential acquisition or tender offer. Until a "distribution date" occurs, the rights will:

not be exercisable;

be represented in the same book-entry form or by the same certificate that represents the shares with which the rights are associated; and

trade together with those shares.

The rights will expire at the close of business on May 24, 2024, unless earlier redeemed or exchanged by us. Following a "distribution date," the rights would become exercisable and we would issue separate certificates representing the rights, which would trade separately from our ordinary shares. A "distribution date" would occur upon the earlier of:

ten business days after a public announcement that the person has become an "acquiring person;" or

ten business days (or such later date as may be determined by action of the board of directors prior to such time as any person or group of affiliated persons becomes an "acquiring person") after the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 19% or more of the outstanding ordinary shares.

A holder of rights will not, as such, have any rights as a shareholder, including the right to vote or receive dividends.

Under our rights agreement, a person becomes an "acquiring person" if the person, alone or together with a group, acquires beneficial ownership of 19% or more of our outstanding ordinary shares. GSK is not an "acquiring person" because we have, pursuant to our governance agreement with GSK, exempted GSK from the application of our rights agreement. In addition, an "acquiring person" shall not include us, any of our subsidiaries, or any of our employee benefit plans or any person or entity acting pursuant to such employee benefit plans. Our rights agreement also contains provisions designed to prevent the inadvertent triggering of the rights by institutional or certain other shareholders.

If any person becomes an acquiring person, each holder of a right, other than the acquiring person, will be entitled to purchase, at the purchase price, a number of our ordinary shares having a market value of two times the purchase price. If, following a public announcement that a person has become an acquiring person:

we merge or enter into any similar business combination transaction and we are not the surviving corporation; or

50% or more of our assets, cash flow or earning power is sold or transferred,

each holder of a right, other than the acquiring person, will be entitled to purchase a number of ordinary shares of the surviving entity having a market value of two times the purchase price.



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After a person becomes an acquiring person, but prior to such person acquiring 50% of our outstanding ordinary shares, our board of directors may exchange each right, other than rights owned by the acquiring person, for

one ordinary share;

one one-thousandth of a share of our Series A junior preferred share; or

a fractional share of another series of preferred share having equivalent value.

At any time until a person has become an acquiring person, our board of directors may redeem all of the rights at a redemption price of \$0.01 per right. On the redemption date, the rights will expire and the only entitlement of the holders of rights will be to receive the redemption price.

For so long as the rights are redeemable, our board of directors may amend any provisions in the rights agreement without shareholder consent. After the rights are no longer redeemable, our board of directors may only amend the rights agreement without shareholder consent if such amendment would not change the amendment provisions, adversely affect the interests of the holders of rights, or cause the rights to again become redeemable. Despite the foregoing, at no time may the redemption price of the rights be amended or changed.

The adoption of the rights agreement and the distribution of the rights should not be taxable to our shareholders or us. Our shareholders may recognize taxable income when the rights become exercisable in accordance with the rights agreement.

**Differences in Corporate Law**

The Companies Law is modeled after similar laws in the United Kingdom but does not follow recent changes in United Kingdom laws. In addition, the Companies Law differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

***Mergers and Similar Arrangements***

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies.

For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by a special resolution of the shareholders of each constituent company and such other authorization, if any, as may be specified in such constituent company's articles of association. The plan must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and published in the Cayman Islands Gazette.

Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

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In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement in question is approved by a majority in number representing 75% in value of each class of shareholders and creditors with whom the arrangement is to be made that are present and voting either in person or by proxy at a meeting, or meetings convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder would have the right to express to the court the view that the transaction should not be approved, the court can be expected to approve the arrangement if it satisfies itself that:

we are not proposing to act illegally or ultra vires and the statutory provisions as to majority vote have been complied with;

the shareholders have been fairly represented at the meeting in question;

the arrangement is such as a businessman would reasonably approve; and

the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law or that would amount to a "fraud on the minority."

When a takeover offer is made and accepted by holders of at least 90% of the shares within four months, the offeror may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection may be made to the Grand Court of the Cayman Islands but is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction are thus approved, any dissenting shareholders would have no rights comparable to appraisal rights, which might otherwise ordinarily be available to dissenting shareholders of U.S. corporations and allow such dissenting shareholders to receive payment in cash for the judicially determined value of their shares.

### *Shareholders' Suits*

We are not aware of any reported class action or derivative action having been brought in a Cayman Islands court. However, a class action suit could nonetheless be brought in a U.S. court pursuant to an alleged violation of U.S. securities laws and regulations. Our Cayman Islands counsel, Maples and Calder, is not aware of any reported class action having been brought in a Cayman Islands court. Derivative actions have been brought in the Cayman Islands courts, and the Cayman Islands courts have confirmed the availability for such actions. In most cases, the company will be the proper plaintiff in any claim based on a breach of duty owed to it, and a claim against (for example) the company's officers or directors usually may not be brought by a shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority and be applied by a court in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

a company is acting, or proposing to act, illegally or beyond the scope of its authority;

the act complained of, although not beyond the scope of the authority, could be effected if duly authorized by more than the number of votes which have actually been obtained; or

those who control the company are perpetrating a "fraud on the minority."

**A shareholder may have a direct right of action against the company where the individual rights of that shareholder have been infringed or are about to be infringed.**

### **Corporate Governance**

Cayman Islands laws do not restrict transactions with directors, requiring only that directors exercise a duty of care and owe fiduciary duties to the companies for which they serve. Under our amended and restated memorandum and articles of association, subject to any separate requirement for



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audit committee approval under the applicable rules of the Nasdaq Global Market or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his interest in any contract or arrangement which he is interested in, such a director may vote in respect of any contract or proposed contract or arrangement in which such director is interested and may be counted in the quorum at such meeting.

**Board of Directors**

We are managed by our board of directors. Our amended and restated memorandum and articles of association will provide that the number of our directors will be fixed from time to time by our board of directors but may not consist of less than three or more than 15 directors. Each director holds office until the expiration of his or her term in accordance with the terms of our amended and restated memorandum and articles of association, until his or her successor has been duly elected and qualified or until his or her death, resignation or removal. Our directors may only be removed for cause by our board of directors. Any vacancies on our board of directors or additions to the existing board of directors can only be filled by the affirmative vote of a simple majority of the remaining directors, although this may be less than a quorum. Any director so appointed by the board of directors shall hold office only for the remaining term of the class of director which he or she replaces and shall then be eligible for re-election. Our directors are not required to hold any of our shares to be qualified to serve on our board of directors.

Meetings of our board of directors may be convened at any time deemed necessary by our secretary on request of the chairman of our board of directors, our chief executive officer, if not the chairman of our board of directors, or a majority of our board of directors. Advance notice of a meeting is not required if each director entitled to attend consents to the holding of such meeting.

**Issuance of Additional Ordinary Shares or Preferred Shares**

Our amended and restated memorandum and articles of association authorize our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent available, authorized but unissued shares. The issuance of additional ordinary shares may, subject to applicable law, be used as an anti-takeover device without further action on the part of our shareholders. Such issuance may dilute the voting power of existing holders of ordinary shares.

Our board of directors may authorize by resolution or resolutions from time to time the issuance of one or more classes or series of preferred shares and to fix the designations, powers, preferences and relative, participating, optional and other rights, if any, and the qualifications, limitations and restrictions thereof, if any, including, without limitation, the number of shares constituting each such class or series, dividend rights, conversion rights, redemption privileges, voting powers, full or limited or no voting powers, and liquidation preferences, and to increase or decrease the size of any such class or series (but not below the number of shares of any class or series of preferred shares then outstanding) to the extent permitted by applicable law. The resolution or resolutions providing for the establishment of any class or series of preferred shares may, to the extent permitted by applicable law, provide that such class or series shall be superior to, rank equally with or be junior to the preferred shares of any other class or series. Additionally, the issuance of preference shares may have the effect of decreasing the market price of the ordinary shares and may adversely affect the voting and other rights of the holders of ordinary shares.

Our board of directors may issue series of preferred shares without action by our shareholders to the extent authorized but unissued. Accordingly, the issuance of preferred shares may adversely affect the enjoyment of the rights of the holders of our ordinary shares. In addition, the issuance of preferred shares may be used as an anti-takeover device without further action on the part of our shareholders, subject to applicable law. Issuance of preferred shares may dilute the voting power of holders of ordinary shares.



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**DESCRIPTION OF WARRANTS**

We may issue warrants for the purchase of debt securities, ordinary shares, or any combination thereof. We may issue warrants independently or together with any other securities offered by any prospectus supplement and may be attached to or separate from the other offered securities. Each series of warrants will be issued under a separate warrant agreement to be entered into by us with a warrant agent. The warrant agent will act solely as our agent in connection with the warrants and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants. Further terms of the warrants and the applicable warrant agreements will be set forth in the applicable prospectus supplement.

The applicable prospectus supplement relating to any particular issue of warrants will describe the terms of the warrants, including, as applicable, the following:

the title of the warrants;

the aggregate number of the warrants;

the price or prices at which the warrants will be issued;

the designation, terms and number of ordinary shares or principal amount of debt securities purchasable upon exercise of the warrants;

the designation and terms of the offered securities, if any, with which the warrants are issued and the number of the warrants issued with each offered security;

the date, if any, on and after which the warrants and the related debt securities or ordinary shares will be separately transferable;

the price at which each ordinary share or underlying debt securities purchasable upon exercise of the warrants may be purchased or the manner of determining such price;

the date on which the right to exercise the warrants shall commence and the date on which that right shall expire;

the minimum or maximum amount of the warrants which may be exercised at any one time;

information with respect to book- entry procedures, if any;

a discussion of certain federal income tax considerations; and

any other material terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants.

Before the exercise of warrants to purchase debt securities, holders of such warrants will not be entitled to payments of principal of, premium, if any, or interest, if any, on the debt securities purchasable upon exercise of the warrants, or to enforce any of the covenants in the

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indenture. Holders of warrants to purchase equity securities will not be entitled, solely by virtue of being holders, to vote, to consent, to receive dividends, to receive notice as shareholders with respect to any meeting of shareholders for the election of directors or any other matter, or to exercise any rights whatsoever as a holder of the equity securities purchasable upon exercise of such warrants.

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**PLAN OF DISTRIBUTION**

We may sell the securities offered by this prospectus to one or more underwriters or dealers for public offering and sale by them or to investors directly or through agents. The prospectus supplement or term sheet will set forth the terms of the offering and the method of distribution and will identify any firms acting as underwriters, dealers or agents in connection with the offering, including:

the name or names of any underwriters, dealers or agents;

the purchase price of the securities and the proceeds to us from the sale; and

any securities exchange or market on which the securities offered in the prospectus supplement may be listed.

Only those underwriters identified in such prospectus supplement are deemed to be underwriters in connection with the securities offered in the prospectus supplement.

The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, or at prices determined as the applicable prospectus supplement specifies. The securities may be sold through a rights offering, forward contracts or similar arrangements. In connection with the sale of the securities, underwriters, dealers or agents may be deemed to have received compensation from us in the form of underwriting discounts or commissions and also may receive commissions from securities purchasers for whom they may act as agent. Underwriters may sell the securities to or through dealers, and the dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters or commissions from the purchasers for whom they may act as agent. Some of the underwriters, dealers or agents who participate in the securities distribution may engage in other transactions with, and perform other services for, us or our subsidiaries in the ordinary course of business.

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**LEGAL MATTERS**

Certain legal matters relating to the issuance of the securities offered by this prospectus will be passed upon for us by Maples and Calder, Cayman Islands, and Shearman & Sterling LLP, San Francisco, California. Additional legal matters may be passed upon for us or any underwriters, dealers or agents, by counsel that we will name in the applicable prospectus supplement.

**EXPERTS**

Ernst & Young LLP, independent registered public accounting firm, has audited the consolidated financial statements of Theravance Biopharma, Inc. included in the Theravance Biopharma, Inc. Annual Report on Form 10-K for the year ended December 31, 2014, as set forth in their report, which is incorporated by reference in this prospectus and elsewhere in the registration statement. The financial statements of Theravance Biopharma, Inc. are incorporated by reference in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed a registration statement on Form S-3 with the SEC under the Securities Act of 1933. This prospectus is part of the registration statement but the registration statement includes and incorporates by reference additional information and exhibits. We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy the registration statement and any document we file with the SEC at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800- SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding companies, such as ours, that file documents electronically with the SEC. The address of that site is <http://www.sec.gov>. The information on the SEC's website, other than the documents specifically incorporated by reference herein, is not part of this prospectus, and any references to this website or any other web site are inactive textual references only.

The SEC permits us to "incorporate by reference" the information contained in documents we file with the SEC, which means that we can disclose important information to you by referring you to those documents rather than by including them in this prospectus. Information that is incorporated by reference is considered to be part of this prospectus and you should read it with the same care that you read this prospectus. Later information that we file with the SEC will automatically update and supersede the information that is either contained, or incorporated by reference, in this prospectus, and will be considered to be a part of this prospectus from the date those documents are filed. We have filed with the SEC, and incorporate by reference in this prospectus:

The Annual Report on Form 10-K for Theravance Biopharma, Inc. for the fiscal year ended December 31, 2014, filed with the SEC on March 13, 2015 (including the portion of the Proxy Statement on Schedule 14A of Theravance Biopharma, Inc. filed on March 17, 2015, incorporated by reference therein).

The description of ordinary shares contained in the Registration Statement No. 001-36033 on Form 10 filed with the SEC on May 7, 2014, including any amendment or report filed for the purpose of updating such description.

All other reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the Annual Report of Theravance Biopharma, Inc. referred to above except as to documents or information deemed to have been furnished and not filed in accordance with the rules of the SEC.

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We also incorporate by reference all additional documents that we file with the SEC under the terms of Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act that are made after the initial filing date of the registration statement of which this prospectus is a part until the offering of the particular securities covered by a prospectus supplement or term sheet has been completed. We are not, however, incorporating, in each case, any documents or information that we are deemed to furnish and not file in accordance with SEC rules.

You may request a copy of any or all of the documents incorporated by reference but not delivered with this prospectus, at no cost, by calling us at (650) 808-6000 or by writing to us at the following address:

Theravance Biopharma, Inc.  
c/o Theravance Biopharma US, Inc.  
901 Gateway Boulevard  
South San Francisco, California 94080  
Attn: Investor Relations

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject To Completion, Dated June 26, 2015.**

**PROSPECTUS**

**Up to \$50,000,000  
Ordinary Shares**

We have entered into a Controlled Equity Offering<sup>SM</sup> sales agreement with Cantor Fitzgerald & Co. relating to our ordinary shares offered by this prospectus. In accordance with the terms of the sales agreement, we may offer and sell our ordinary shares having an aggregate offering price of up to \$50,000,000 from time to time through Cantor Fitzgerald & Co., acting as agent.

Sales of our ordinary shares, if any, under this prospectus may be made in sales deemed to be "at-the-market" equity offerings as defined in Rule 415 promulgated under the Securities Act of 1933, as amended, or the Securities Act, including sales made directly on or through the Nasdaq Global Market, the existing trading market for our ordinary shares, sales made to or through a market maker other than on an exchange or otherwise, in negotiated transactions at market prices prevailing at the time of sale or at prices related to such prevailing market prices, and/or any other method permitted by law, including in privately negotiated transactions. Cantor Fitzgerald & Co. will act as sales agent on a best efforts basis and use commercially reasonable efforts to sell on our behalf all of the ordinary shares requested to be sold by us, consistent with its normal trading and sales practices, on mutually agreed terms between Cantor Fitzgerald & Co. and us. There is no arrangement for funds to be received in any escrow, trust or similar arrangement.

Cantor Fitzgerald & Co. will be entitled to compensation at a commission rate of up to 3.0% of the gross sales price per share sold. In connection with the sale of our ordinary shares on our behalf, Cantor Fitzgerald & Co. will be deemed to be an "underwriter" within the meaning of the Securities Act and the compensation of Cantor Fitzgerald & Co. will be deemed to be underwriting commissions or discounts.

Our ordinary shares are traded on the Nasdaq Global Market under the symbol "TBPH." On June 25, 2015, the closing price of our ordinary shares on the Nasdaq Global Market was \$13.97 per share.

**Investing in our securities involves risks. See the section entitled "Risk Factors" on page S-4 of this prospectus and in the documents we incorporate by reference in this prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2015.

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**ABOUT THIS SALES AGREEMENT PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a "shelf" registration, or continuous offering, process. By using a shelf registration statement, we may offer our ordinary shares having an aggregate offering price of up to \$50,000,000 from time to time under this prospectus at prices and on terms to be determined by market conditions at the time of offering.

We provide information to you about this offering of our ordinary shares in two separate documents that are bound together: (1) this sales agreement prospectus, which describes the specific details regarding this offering; and (2) the accompanying base prospectus, which provides general information, some of which may not apply to this offering. Generally, when we refer to this "prospectus," we are referring to both documents combined. If information in this sales agreement prospectus is inconsistent with the accompanying base prospectus, you should rely on this prospectus. However, if any statement in one of these documents is inconsistent with a statement in another document having a later date for example, a document incorporated by reference in this prospectus the statement in the document having the later date modifies or supersedes the earlier statement as our business, financial condition, results of operations and prospects may have changed since the earlier dates.

You should rely only on the information incorporated by reference or provided in this prospectus, any prospectus supplement and the registration statement. We have not, and Cantor Fitzgerald & Co., or Cantor, has not, authorized anyone else to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus and any prospectus supplement, or incorporated by reference, is accurate only as of the dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless the context otherwise requires, references in this prospectus and the accompanying prospectus supplement to "Theravance Biopharma," "we," "us," "our" and other similar pronouns refer to Theravance Biopharma, Inc. and its subsidiaries.

Theravance Biopharma, the Theravance Biopharma logo and VIBATIV are our registered trademarks. Other trademarks, tradenames or service marks of other companies appearing in this prospectus are the property of their respective owners.

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**SALES AGREEMENT PROSPECTUS SUMMARY**

*This summary provides a general overview of selected information and does not contain all of the information you should consider before buying our ordinary shares. Therefore, you should read the entire prospectus and any free writing prospectus that we have authorized for use in connection with this offering carefully, including the information incorporated by reference, before deciding to invest in our ordinary shares. Investors should carefully consider the information set forth under "Risk Factors" and incorporated by reference to our annual report on Form 10-K and our quarterly reports on Form 10-Q.*

**Theravance Biopharma, Inc.**

**Overview**

The mission of Theravance Biopharma is to create value from a unique and diverse set of assets: an approved product; a development pipeline of late-stage assets; and a productive research platform designed for long-term growth.

Our pipeline of internally discovered product candidates includes potential best-in-class opportunities in underserved markets in the acute care setting, representing multiple opportunities for value creation. VIBATIV® (telavancin), our first commercial product, is a once-daily dual-mechanism antibiotic approved in the United States and Europe for certain difficult-to-treat infections. TD-4208 is an investigational long-acting muscarinic antagonist (LAMA) being developed as a potential once-daily, nebulized treatment for chronic obstructive pulmonary disease (COPD). Axelopran (TD-1211) is an investigational potential once-daily, oral treatment for opioid-induced constipation (OIC). Our earlier-stage clinical assets represent novel approaches for potentially treating diseases of the lung and gastrointestinal tract and infectious disease. In addition, we have an economic interest in future payments that may be made by GlaxoSmithKline plc (together with its affiliates, "GSK") pursuant to its agreements with Theravance, Inc. ("Theravance") relating to certain drug development programs, including the combination of fluticasone furoate, umeclidinium, and vilanterol (or the "Closed Triple").

On June 1, 2014, Theravance separated its late-stage respiratory assets partnered with GSK from its biopharmaceutical operations by transferring its discovery, development and commercialization operations (the "Biopharmaceutical Business") and contributing \$393.0 million of cash, cash equivalents and marketable securities into its then wholly-owned subsidiary Theravance Biopharma. On June 2, 2014 Theravance made a pro rata dividend distribution to its stockholders of record on May 15, 2014 of one ordinary share of Theravance Biopharma for every three and one half shares of Theravance common stock outstanding on the record date (the "Spin-Off"). The Spin-Off resulted in Theravance Biopharma operating as an independent, publicly-traded company. Prior to June 2, 2014, Theravance operated the Biopharmaceutical Business.

**Corporate Information**

Theravance Biopharma was incorporated in the Cayman Islands in July 2013 under the name Theravance Biopharma, Inc. Our registered office address in the Cayman Islands is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the principal office of our wholly-owned U.S. operating subsidiary Theravance Biopharma US, Inc., is 901 Gateway Boulevard, South San Francisco, California 94080.

Our internet address is [www.theravance.com](http://www.theravance.com). Information contained on our website does not constitute a part of this prospectus. Our investor relations website is located at <http://investor.theravance.com>. We make available free of charge on our investors relations website under "SEC Filings" our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, our directors' and officers' Section 16 Reports and any amendments to those reports as soon as reasonably practicable after filing such materials with or furnishing such materials to the SEC. The information found on either of our websites is not part of this or any other report that we file with or furnish to the SEC.

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**THE OFFERING**

Ordinary shares offered by us	Ordinary shares having an aggregate offering price of up to \$50,000,000.
Ordinary shares to be outstanding after this offering	Up to 37,380,825 shares (as more fully described in the notes following this table), assuming sales of 3,579,098 of our ordinary shares in this offering at an offering price of \$13.97 per share, which was the last reported sale price of our ordinary shares on The Nasdaq Global Market on June 25, 2015. The actual number of shares issued will vary depending on the sales price under this offering.
Manner of offering	"At-the-market" offering that may be made from time to time through our sales agent, Cantor Fitzgerald & Co. See "Plan of Distribution" on page S-9.
Use of Proceeds	We intend to use the net proceeds from the sale of ordinary shares offered by this prospectus, if any, for general corporate purposes, which may include, among other things, research activities, preclinical and clinical development of existing product candidates, manufacture of pre-clinical, clinical and commercial drug supplies, selling and marketing expenses, capital expenditures, working capital, general and administrative expenses and acquisitions of technology or drug candidates. See "Use of Proceeds" on page S-6.
Risk Factors	You should read the "Risk Factors" section of this prospectus and in the documents incorporated by reference in this prospectus for a discussion of factors to consider before deciding to purchase our ordinary shares.
Symbol on the Nasdaq Global Market	"TBPH"
The number of ordinary shares shown above to be outstanding after this offering is based on 33,801,727 shares outstanding as of March 31, 2015, and excludes, in each case as of March 31, 2015:	

4,063,422 ordinary shares issuable upon the exercise of outstanding stock options as of March 31, 2015 having a weighted-average exercise price of \$24.39 per share;

1,038,255 ordinary shares reserved for issuance pursuant to future awards under our 2013 Equity Incentive Award Plan, an any addendums thereto, as well as any automatic increases in the number of ordinary shares reserved for future issuance under this plan;

490,825 ordinary shares reserved for future issuance under our 2014 New Employee Equity Incentive Plan, as well as any automatic increases in the number of ordinary shares reserved for future issuance under this plan;

1,179,352 ordinary shares reserved for issuance pursuant to future awards under our 2013 Employee Share Purchase Plan; and

2,197,123 ordinary shares issuable upon vesting of outstanding restricted stock units.

Unless otherwise stated, all information contained in this prospectus reflects an assumed public offering price of \$13.97 per share, which was the last reported sale price of our ordinary shares on The Nasdaq Global Market on June 25, 2015.

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**RISK FACTORS**

You should consider carefully the risks described below and discussed under the section captioned "Risk Factors" contained in our annual report on Form 10-K for the year ended December 31, 2014 and in our quarterly report for the quarterly period ended March 31, 2015, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act, each of which is incorporated by reference in this prospectus in their entirety, together with other information in this prospectus, and the information and documents incorporated by reference in this prospectus, and any free writing prospectus that we have authorized for use in connection with this offering before you make a decision to invest in our ordinary shares. If any of the following events actually occur, our business, operating results, prospects or financial condition could be materially and adversely affected. This could cause the trading price of our ordinary shares to decline and you may lose all or part of your investment. The risks described below are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial may also affect our business operations.

**Additional Risks Relating to this Offering**

*Our management team may invest or spend the proceeds of this offering in ways with which you may not agree or in ways which may not yield a significant return.*

Our management will have broad discretion over the use of proceeds from this offering. We intend to use the net proceeds from the sale of ordinary shares offered by this prospectus, if any, for general corporate purposes, which may include, among other things, research activities, preclinical and clinical development of existing product candidates, manufacture of pre-clinical, clinical and commercial drug supplies, selling and marketing expenses, capital expenditures, working capital, general and administrative expenses and acquisitions of technology or drug candidates. Our management will have considerable discretion in the application of the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not increase our operating results or enhance the value of our ordinary shares.

*You may experience immediate and substantial dilution.*

The price per ordinary share being offered may be higher than the net tangible book value of our ordinary shares outstanding prior to this offering. Assuming that an aggregate of 3,579,098 shares are sold at a price of \$13.97 per share, the last reported sale price of our ordinary shares on the Nasdaq Global Market on June 25, 2015, for aggregate proceeds of \$50,000,000 in this offering, and after deducting commissions and estimated aggregate offering expenses payable by us, you will suffer immediate and substantial dilution of \$4.96 per share, representing the difference between the as adjusted net tangible book value per share of our ordinary shares as of March 31, 2015 after giving effect to this offering and the assumed offering price. See the section entitled "Dilution" below for a more detailed discussion of the dilution you will incur if you purchase ordinary shares in this offering.

*You may experience future dilution as a result of future equity offerings.*

In order to raise additional capital, we may in the future offer additional ordinary shares or other securities convertible into or exchangeable for our ordinary shares. We cannot assure you that we will be able to sell shares or other securities in any other offering at a price per share that is equal to or greater than the price per share paid by investors in this offering, and investors purchasing shares or other securities in the future could have rights superior to existing shareholders. The price per share at which we sell additional ordinary shares or other securities convertible into or exchangeable for our ordinary shares in future transactions may be higher or lower than the price per share in this offering.

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**FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve substantial risks, uncertainties and assumptions. All statements in this prospectus, other than statements of historical facts, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans, intentions, expectations and objectives could be forward-looking statements. The words "aim," "anticipates," "believes," "could," "designed," "developed," "drive," "estimates," "expects," "goal," "intends," "may," "mission," "opportunities," "plans," "potential," "projects," "pursuing," "represents," "suggest," "target," "will," "would" and similar expressions (including the negatives thereof) are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions, expectations or objectives disclosed in our forward-looking statements and the assumptions underlying our forward-looking statements may prove incorrect. Therefore, you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions, expectations and objectives disclosed in the forward-looking statements that we make.

Factors that we believe could cause actual results or events to differ materially from our forward-looking statements include, but are not limited to, those discussed below, any accompanying prospectus supplement and the documents incorporated herein and therein by reference, in the sections "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and elsewhere in this prospectus. Our forward-looking statements in this prospectus are based on current expectations and we do not assume any obligation to update any forward-looking statements.

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**USE OF PROCEEDS**

The amount of proceeds from this offering will depend upon the number of ordinary shares sold and the market price at which they are sold. There can be no assurance that we will be able to sell any shares under or fully utilize the sales agreement with Cantor as a source of financing. We intend to use the net proceeds from the sale of ordinary shares offered by this prospectus, if any, for general corporate purposes, which may include, among other things, research activities, preclinical and clinical development of existing product candidates, manufacture of pre-clinical, clinical and commercial drug supplies, selling and marketing expenses, capital expenditures, working capital, general and administrative expenses and acquisitions of technology or drug candidates.

The amounts and timing of our actual expenditures will depend on numerous factors, including our development and commercialization efforts with respect to product candidates, as well as the amount of cash used in our operations. We therefore cannot estimate with certainty the amount of net proceeds to be used for the purposes described above. We may find it necessary or advisable to use the net proceeds for other purposes, and we will have broad discretion in the application of the net proceeds. Pending the uses described above, we plan to invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities.

Table of Contents**DILUTION**

Our net tangible book value as of March 31, 2015 was approximately \$289.1 million, or \$8.55 per share. Net tangible book value per share is determined by dividing our total tangible assets, less total liabilities, by the number of ordinary shares outstanding as of March 31, 2015. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of ordinary shares in this offering and the as adjusted net tangible book value per share of our ordinary shares immediately after giving effect to this offering.

After giving effect to the sale of our ordinary shares in the aggregate amount of \$50.0 million in this offering at an assumed offering price of \$13.97, the last reported sale price of our ordinary shares on the Nasdaq Global Market on June 25, 2015, and after deducting commissions and estimated aggregate offering expenses payable by us, our as adjusted net tangible book value as of March 31, 2015 would have been approximately \$336.7 million, or \$9.01 per share. This represents an immediate increase in net tangible book value of \$0.46 per share to existing shareholders and immediate dilution in net tangible book value of \$4.96 per share to new investors purchasing our ordinary shares in this offering. The following table illustrates this dilution on a per share basis:

Assumed public offering price per share	\$	13.97
Net tangible book value per share as of March 31, 2015	\$	8.55
Increase per share attributable to new investors	\$	0.46
As adjusted net tangible book value per share after this offering	\$	9.01
Dilution per share to new investors	\$	4.96

The shares sold in this offering, if any, will be sold from time to time at various prices. An increase of \$1.00 per share in the price at which the shares are sold from the assumed offering price of \$13.97 per share shown in the table above, assuming all of our ordinary shares in the aggregate amount of \$50.0 million is sold at that price, would increase our as adjusted net tangible book value per share after the offering to \$9.06 per share and would increase the dilution in net tangible book value per share to new investors to \$5.91 per share, after deducting commissions and estimated aggregate offering expenses payable by us. A decrease of \$1.00 per share in the price at which the shares are sold from the assumed offering price of \$13.97 per share shown in the table above, assuming all of our ordinary shares in the aggregate amount of \$50.0 million is sold at that price, would increase our as adjusted net tangible book value per share after the offering to \$8.94 per share and would decrease the dilution in net tangible book value per share to new investors to \$4.03 per share, after deducting commissions and estimated aggregate offering expenses payable by us. This information is supplied for illustrative purposes only.

To the extent that outstanding options vest, investors purchasing our ordinary shares in this offering may experience further dilution. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our shareholders.

The above discussion and table are based on 33,801,727 ordinary shares outstanding as of March 31, 2015, and exclude as of that date:

4,063,422 ordinary shares issuable upon the exercise of outstanding stock options as of March 31, 2015 having a weighted-average exercise price of \$24.39 per share;

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1,038,255 ordinary shares reserved for issuance pursuant to future awards under our 2013 Equity Incentive Award Plan, an any addendums thereto, as well as any automatic increases in the number of ordinary shares reserved for future issuance under this plan;

490,825 ordinary shares reserved for future issuance under our 2014 New Employee Equity Incentive Plan, as well as any automatic increases in the number of ordinary shares reserved for future issuance under this plan;

1,179,352 ordinary shares reserved for issuance pursuant to future awards under our 2013 Employee Share Purchase Plan; and

2,197,123 ordinary shares issuable upon vesting of outstanding restricted stock units.

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**PLAN OF DISTRIBUTION**

We have entered into a Controlled Equity Offering<sup>SM</sup> sales agreement with Cantor under which we may issue and sell ordinary shares having an aggregate gross sales price of up to \$50,000,000 from time to time through Cantor acting as agent. The sales agreement has been filed as an exhibit to our registration statement on Form S-3 of which this prospectus forms a part.

Upon delivery of a placement notice and subject to the terms and conditions of the sales agreement, Cantor may sell our ordinary shares by any method permitted by law deemed to be an "at-the-market" offering as defined in Rule 415 promulgated under the Securities Act, including sales made directly on the Nasdaq Global Market, on any other existing trading market for our ordinary shares or to or through a market maker. Cantor may also sell our ordinary shares by any other method permitted by law, including in privately negotiated transactions. We may instruct Cantor not to sell ordinary shares if the sales cannot be effected at or above the price designated by us from time to time. We or Cantor may suspend the offering of ordinary shares upon notice and subject to other conditions.

We will pay Cantor commissions, in cash, for its services in acting as agent in the sale of our ordinary shares. Cantor will be entitled to compensation at a commission rate of up to 3.0% of the gross sales price per share sold. Because there is no minimum offering amount required as a condition to close this offering, the actual total public offering amount, commissions and proceeds to us, if any, are not determinable at this time. We have also agreed to reimburse Cantor for certain specified expenses, including the fees and disbursements of its legal counsel, in an amount not to exceed \$50,000. We estimate that the total expenses for the offering, excluding discounts and commissions payable to Cantor under the terms of the sales agreement, will be approximately \$940,000.

Settlement for sales of ordinary shares will occur on the third business day following the date on which any sales are made, or on some other date that is agreed upon by us and Cantor in connection with a particular transaction, in return for payment of the net proceeds to us. Sales of our ordinary shares as contemplated in this prospectus will be settled through the facilities of The Depository Trust Company or by such other means as we and Cantor may agree upon. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

Cantor will use its commercially reasonable efforts, consistent with its sales and trading practices, to solicit offers to purchase the ordinary shares under the terms and subject to the conditions set forth in the sales agreement. In connection with the sale of the ordinary shares on our behalf, Cantor will be deemed to be an "underwriter" within the meaning of the Securities Act and the compensation of Cantor will be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to Cantor against certain civil liabilities, including liabilities under the Securities Act.

The offering of our ordinary shares pursuant to the sales agreement will terminate upon the earlier of (1) the sale of all of our ordinary shares subject to the sales agreement, or (2) termination of the sales agreement as permitted therein. We and Cantor may each terminate the sales agreement at any time upon ten days' prior notice.

Any portion of the \$50,000,000 included in this sales agreement prospectus that is not previously sold or included in an active placement notice pursuant to the sales agreement is available for sale in other offerings pursuant to the base prospectus, and if no shares are sold under the sales agreement, the full \$250,000,000 of securities may be sold in other offerings pursuant to the base prospectus and a corresponding prospectus supplement.

Cantor and its affiliates may in the future provide various investment banking, commercial banking and other financial services for us and our affiliates, for which services they may in the future receive customary fees. To the extent required by Regulation M, Cantor will not engage in any market making activities involving our ordinary shares while the offering is ongoing under this prospectus.

This prospectus in electronic format may be made available on a website maintained by Cantor and Cantor may distribute this prospectus electronically.



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**CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR U.S. HOLDERS OF ORDINARY SHARES**

**Owning or Disposing of our Ordinary Shares**

The following summary discusses certain U.S. federal income tax consequences of the ownership and disposition by U.S. Holders of our ordinary shares, as described below. This discussion is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, published positions of the IRS, judicial decisions and other applicable authorities, all as currently in effect, and all of which are subject to change or differing interpretations, possibly with retroactive effect. Any such change could affect the accuracy of this discussion.

The following discussion assumes that Theravance Biopharma is not treated as a U.S. corporation for U.S. federal tax purposes under Section 7874 of the Code. Further, this discussion is limited to U.S. Holders who hold our ordinary shares as capital assets, within the meaning of Section 1221 of the Code. This summary does not discuss all tax considerations that may be relevant to holders of our ordinary shares in light of their particular circumstances, nor does it address the consequences to holders of our ordinary shares subject to special treatment under the U.S. federal income tax laws, such as tax-exempt entities, partnerships (including entities treated as partnerships for U.S. federal income tax purposes), persons who acquire our ordinary shares pursuant to the exercise of employee stock options or otherwise as compensation, financial institutions, insurance companies, dealers or traders in securities, and persons who hold our ordinary shares as part of a straddle, hedge, conversion, constructive sale, synthetic security, integrated investment or other risk-reduction transaction for U.S. federal income tax purposes. This discussion does not address any U.S. federal estate, gift or other non-income tax consequences or any state, local or foreign tax consequences, or the consequences of the Medicare tax on net investment income.

**Prospective purchasers of our ordinary shares should consult their tax advisors as to the particular tax consequences to them of the ownership and disposition of our ordinary shares.**

For purposes of this discussion, a U.S. Holder is a beneficial owner of our ordinary shares that is, for U.S. federal income tax purposes:

an individual who is a citizen or a resident of the United States;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any state or political subdivision thereof;

an estate, the income of which is subject to United States federal income taxation regardless of its source; or

a trust, if (i) a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (ii) in the case of a trust that was treated as a domestic trust under the law in effect before 1997, a valid election is in place under applicable Treasury Regulations.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds our ordinary shares, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our ordinary shares should consult its tax advisor regarding the tax consequences of the distribution.

Subject to the PFIC rules discussed below, distributions or dividends with respect to our ordinary shares (which for these purposes will include the amount of any non-U.S. taxes withheld therefrom) should generally be includible in the gross income of a U.S. Holder as foreign source dividend income

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to the extent that such distributions are paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles.

To the extent we pay dividends in a currency other than the U.S. dollar, the amount of any dividend paid to U.S. Holders in such currency will (subject to the PFIC rules discussed below) be includible in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the amount of such dividend is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency exchange gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency exchange gain or loss if the dividend is converted into U.S. dollars after the date of receipt. In general, foreign currency exchange gain or loss will be treated as U.S.-source ordinary gain or loss for foreign tax credit purposes.

Subject to certain limitations, including the PFIC rules discussed below, non-U.S. taxes (if any) withheld from or paid on dividend distributions generally will be eligible for credit against the U.S. Holder's U.S. federal income taxes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The foreign tax credit rules are complex, and U.S. Holders are urged to consult their tax advisors regarding the availability of foreign tax credits in their particular circumstances.

Subject to the PFIC rules discussed below, a U.S. Holder will generally recognize a capital gain or loss for U.S. federal income tax purposes on the sale or disposition of our ordinary shares in the same manner as on the sale or disposition of any other ordinary shares held as capital assets and such capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period for such ordinary shares exceeds one year as of the date of sale or disposition.

**Passive Foreign Investment Company Status**

The treatment of U.S. Holders of our ordinary shares in some cases will be materially different from that described above if, at any relevant time, Theravance Biopharma is a PFIC for U.S. federal income tax purposes. If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares, unless the U.S. Holder makes a mark-to-market election or QEF election (each as described below) with respect to the ordinary shares, the U.S. Holder will, except as discussed below, be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ordinary shares), and (ii) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of ordinary shares. Under the PFIC rules:

the excess distribution and/or gain will be allocated ratably over the U.S. Holder's holding period for the ordinary shares;

the amount allocated to the current taxable year and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC (each, a pre-PFIC year) will be taxable as ordinary income;

the amount allocated to each prior taxable year, other than the current taxable year or a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the individuals or corporations, as appropriate, for that year; and

will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to each prior taxable year, other than a pre-PFIC year.

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If we are a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares and any of our non-United States subsidiaries is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. Each U.S. Holder is advised to consult its tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. Holder of "marketable stock" in a PFIC may make a mark-to-market election with respect to our ordinary shares, provided that such ordinary shares are regularly traded. If a mark-to-market election is made, the U.S. Holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ordinary shares held at the end of the taxable year over the adjusted tax basis of such ordinary shares and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ordinary shares over the fair market value of such ordinary shares held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ordinary shares would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes an effective mark-to-market election, in each year that we are a PFIC, any gain recognized upon the sale or other disposition of the ordinary shares will be treated as ordinary income and loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

If a U.S. Holder makes a mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the U.S. Holder will not be required to take into account the mark-to-market gain or loss described above during any period that such corporation is not classified as a PFIC.

Because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder who makes a mark-to-market election with respect to our ordinary shares may continue to be subject to the general PFIC rules with respect to such U.S. Holder's indirect interest in any of our non-United States subsidiaries that is classified as a PFIC.

A U.S. Holder of ordinary shares in a PFIC may instead make a qualified electing fund election, or "QEF election", with respect to such ordinary shares. A U.S. Holder who makes a timely QEF election with respect to our ordinary shares must report for U.S. federal income tax purposes their pro rata share of our ordinary earnings and net capital gain, if any, for each taxable year for which we are a PFIC that ends with or within such U.S. Holder's taxable year, regardless of whether or not they receive any distributions on the ordinary shares that they own. No portion of any such inclusions of ordinary earnings would be eligible to be treated as "qualified dividend income." For a non-corporate U.S. Holder, any such net capital gain inclusions would be eligible for taxation at the preferential capital gains tax rates. For ordinary shares held by a regulated investment company, such ordinary earnings and net capital gain inclusions will be treated as qualifying income described in Section 851(b)(2)(A) of the Code. A U.S. Holder's adjusted tax basis in our ordinary shares would be increased to reflect any taxed but undistributed earnings and profits. Any distribution of earnings and profits that had been previously taxed would not be taxed again when a U.S. Holder receives such distribution, but would result in a corresponding reduction in the adjusted tax basis in our ordinary shares. A U.S. Holder would not, however, be entitled to a deduction for their pro rata share of any losses a PFIC incurs with respect to any year. A U.S. Holder generally would recognize capital gain or loss on the sale, exchange or other disposition of our ordinary shares. A U.S. Holder may make a timely QEF election with respect to our ordinary shares by filing IRS Form 8621 with their U.S. federal income tax return for the first year in which we are a PFIC and such U.S. Holder holds our ordinary shares. If we are a PFIC for any taxable year, we will make available to U.S. Holders the necessary information in order to make a QEF election as described above.

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Dividends that we pay on our ordinary shares will not be eligible for the reduced tax rate that applies to qualified dividend income if we are classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year. In addition, if a U.S. Holder owns our ordinary shares during any taxable year that we are a PFIC, such U.S. Holder must file an annual report with the IRS, subject to certain limited exceptions. Each U.S. Holder is urged to consult its tax advisor concerning the United States federal income tax consequences of owning and disposing our ordinary shares if we are or become a PFIC, including the possibility of making a mark-to-market election or a qualified electing fund election.

**Information Reporting with Respect to Foreign Financial Assets**

Certain U.S. Holders are required to report information relating to an interest in our ordinary shares, subject to exceptions (including an exception for ordinary shares held in accounts maintained by certain financial institutions), by attaching a completed IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold an interest in our ordinary shares. U.S. Holders are urged to consult their own tax advisors regarding information reporting requirements relating to their ownership of our ordinary shares.

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**LEGAL MATTERS**

Certain legal matters relating to the issuance of the ordinary shares offered by this prospectus will be passed upon for us by Maples and Calder, Cayman Islands. Cantor is being represented in connection with this offering by Reed Smith LLP, New York, New York.

**EXPERTS**

Ernst & Young LLP, independent registered public accounting firm, has audited the consolidated financial statements of Theravance Biopharma, Inc. included in the Theravance Biopharma, Inc. Annual Report on Form 10-K for the year ended December 31, 2014, as set forth in their report, which is incorporated by reference in this prospectus and elsewhere in the registration statement. The financial statements of Theravance Biopharma, Inc. are incorporated by reference in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed a registration statement on Form S-3 with the SEC under the Securities Act of 1933. This prospectus is part of the registration statement but the registration statement includes and incorporates by reference additional information and exhibits. We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy the registration statement and any document we file with the SEC at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding companies, such as ours, that file documents electronically with the SEC. The address of that site is <http://www.sec.gov>. The information on the SEC's website, other than the documents specifically incorporated by reference herein, is not part of this prospectus, and any references to this website or any other website are inactive textual references only.

The SEC permits us to "incorporate by reference" the information contained in documents we file with the SEC, which means that we can disclose important information to you by referring you to those documents rather than by including them in this prospectus. Information that is incorporated by reference is considered to be part of this prospectus and you should read it with the same care that you read this prospectus. Later information that we file with the SEC will automatically update and supersede the information that is either contained, or incorporated by reference, in this prospectus, and will be considered to be a part of this prospectus from the date those documents are filed. We have filed with the SEC, and incorporate by reference in this prospectus:

The Annual Report on Form 10-K for Theravance Biopharma, Inc. for the fiscal year ended December 31, 2014, filed with the SEC on March 13, 2015 (including the portion of the Proxy Statement on Schedule 14A of Theravance Biopharma, Inc. filed on March 17, 2015, incorporated by reference therein).

The description of ordinary shares contained in the Registration Statement No. 001-36033 on Form 10 filed with the SEC on May 7, 2014, including any amendment or report filed for the purpose of updating such description.

All other reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the Annual Report of Theravance Biopharma, Inc. referred to above except as to documents or information deemed to have been furnished and not filed in accordance with the rules of the SEC.

We also incorporate by reference all additional documents that we file with the SEC under the terms of Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act that are made after the initial filing

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date of the registration statement of which this prospectus is a part until the offering of the particular securities covered by a prospectus supplement or term sheet has been completed. We are not, however, incorporating, in each case, any documents or information that we are deemed to furnish and not file in accordance with SEC rules.

You may request a copy of any or all of the documents incorporated by reference but not delivered with this prospectus, at no cost, by calling us at (650) 808-6000 or by writing to us at the following address:

Theravance Biopharma, Inc.  
c/o Theravance Biopharma US, Inc.  
901 Gateway Boulevard  
South San Francisco, California 94080  
Attn: Investor Relations

S-15

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**Up to \$50,000,000**

**Ordinary Shares**

**PROSPECTUS**

**, 2015**

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**PART II**  
**Information Not Required In Prospectus**

**Item 14. Other Expenses of Issuance and Distribution.**

The following is a statement of expenses in connection with the issuance and distribution of the securities being registered, other than underwriting discounts and commission.

SEC Registration Fee	\$ 29,050
FINRA Filing Fee	\$ 38,000
The NASDAQ Stock Market Listing Fees	\$ (1)
Transfer Agent and Registrar and Trustee Fees	\$ (1)
Printing Expenses	\$ (1)
Legal Fees and Expenses	\$ (1)
Accounting Fees and Expenses	\$ (1)
Miscellaneous	\$ (1)
<b>Total:</b>	<b>\$ (1)</b>

(1)

These fees are calculated based on the securities offered and the number of issuances and accordingly cannot be estimated at this time.

**Item 15. Indemnification of Directors and Officers.**

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of directors and officers, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. The Registrant's amended and restated memorandum and articles of association provide for indemnification of directors and officers for actions, costs, charges, losses, damages and actual expenses incurred in their capacities as such, except that such indemnification does not extend to any matter in respect of any actual fraud or willful default that may attach to any of them.

We have entered into indemnification agreements with each of our directors and executive officers and certain other key employees providing for indemnification to the fullest extent permitted by Cayman Islands law and, in certain respects, the indemnification agreements may provide greater protection than that specifically provided for by Cayman Islands law. The indemnification agreements will not provide indemnification for, among other things, conduct which is found to be knowingly fraudulent or deliberately dishonest, or for willful misconduct. We also intend to obtain policies that insure our directors and officers against certain liabilities they may incur in their capacity as directors and officers. Under these policies, the insurer, on our behalf, may pay amounts for which we have granted indemnification to the directors or officers.

Reference is made to the underwriting agreement contained in Exhibit 1.1 to this registration statement, indemnifying our directors and officers against limited liabilities.

We currently carry and intend to continue to carry liability insurance for our directors and officers.

**Item 16. Exhibits.**

A list of exhibits filed herewith is contained in the exhibit index that immediately precedes such exhibits and is incorporated herein by reference.



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**Item 17. Undertakings.**

(a)

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

*provided, however*, that paragraphs (a)(1)(i) and (a)(1)(ii) of this section do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) If the registrant is relying on Rule 430B,

(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5) or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to

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the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to the effective date; or

(ii) If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of

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1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding), is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(e) The undersigned registrant hereby undertakes to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of Section 310 of the Trust Indenture Act in accordance with the rules and regulations prescribed by the SEC under Section 305(b)(2) of the Trust Indenture Act.



Table of Contents**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below hereby constitutes and appoints Rick E Winningham and Renee D. Gala, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to sign any registration statement relating to the offering covered by this registration statement and filed pursuant to Rule 462(b) promulgated under the Securities Act of 1933, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his/her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ RICK E WINNINGHAM</u> Rick E Winningham	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	June 26, 2015
<u>/s/ RENEE D. GALA</u> Renee D. Gala	Senior VP and Chief Financial Officer, Treasurer (Principal Financial and Accounting Officer)	June 26, 2015
<u>/s/ ERAN BROSHY</u> Eran Broshy	Director	June 26, 2015
<u>/s/ HENRIETTA H. FORE</u> Henrietta H. Fore	Director	June 26, 2015
<u>/s/ ROBERT V. GUNDERSON, JR.</u> Robert V. Gunderson, Jr.	Director	June 26, 2015
<u>/s/ BURTON G. MALKIEL PH.D.</u> Burton G. Malkiel Ph.D.	Director	June 26, 2015
<u>/s/ DEAN J. MITCHELL</u> Dean J. Mitchell	Director	June 26, 2015

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<b>Signature</b>	<b>Title</b>	<b>Date</b>
<hr/> <i>/s/ SUSAN M. MOLINEAUX PH.D.</i> Susan M. Molineaux Ph. D.	Director	June 26, 2015
<hr/> <i>/s/ PETER S. RINGROSE PH.D.</i> Peter S. Ringrose Ph.D.	Director	June 26, 2015
<hr/> <i>/s/ GEORGE M. WHITESIDES PH.D.</i> George M. Whitesides Ph.D.	Director	June 26, 2015
<hr/> <i>/s/ WILLIAM D. YOUNG</i> William D. Young	Director	June 26, 2015















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**EXHIBIT INDEX**

Exhibit Number	Description	Incorporated by Reference	
		Form	Filing Date/Period End Date
1.1±	Form of Underwriting Agreement.		
1.2	Controlled Equity Offering <sup>SM</sup> Sales Agreement, dated June 26, 2015, by and between Theravance Biopharma, Inc. and Cantor Fitzgerald & Co.		
2.1	Separation and Distribution Agreement by and between Theravance Biopharma, Inc. and Theravance, Inc., dated June 1, 2014.	8-K	June 3, 2014
4.1	Specimen Share Certificate.	10-12B	April 30, 2014
4.2	Registration Rights Agreement, dated March 3, 2014.	10-12B	April 8, 2014
4.3	Rights Agreement by and between Theravance Biopharma, Inc. and Computershare Inc., dated May 9, 2014.		
4.4	Form of indenture and guarantee relating to debt securities.		
4.5±	Form of supplemental indenture or other instrument establishing the issuance of one or more series of debt securities (including the form of such debt security).		
4.6±	Form of Warrant Agreement and Warrant Certificate.		
5.1	Opinion of Maples and Calder.		
5.2	Opinion of Shearman & Sterling LLP.		
12.1	Computation of Ratio of Earnings to Fixed Charges.		
23.1	Consent of Independent Registered Public Accounting Firm.		
23.2	Consent of Maples and Calder (included in Exhibit 5.1).		
23.3	Consent of Shearman & Sterling LLP (included in Exhibit 5.2).		
24.1	Power of Attorney (see pages II-6 to II-13).		
25.1*	Form T-1 Statement of Eligibility of the trustee for the debt securities.		

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± To be filed by amendment or pursuant to a report to be filed pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934, if applicable, and incorporated herein by reference.

\* To be filed by amendment or pursuant to Trust Indenture Act Section 305(b)(2), if applicable.

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