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

# FORM 10-Q

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

For the Quarterly Period Ended September 30, 1997

OR

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

Commission File Number 1-3970

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

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

Registrant's Telephone Number (717) 763-7064

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES /X/ NO / /

| Title of Each Class | Outstanding Shares at September 30, 1997 |
|---|---|
| Common Stock Par Value $1.25 | 48,206,526 |
| Preferred Stock Purchase Rights | 48,206,526 |

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| (In thousands, except per share amounts) | Three Months Ended September 30 1997 | Three Months Ended September 30 1996 | Nine Months Ended September 30 1997 | Nine Months Ended September 30 1996 |
|---|---|---|---|---|
| REVENUES: | | | | |
| Product sales | $209,686 | $205,877 | $ 638,711 | $ 582,540 |
| Service sales | 197,313 | 189,899 | 585,251 | 567,655 |
| NET SALES OF PRODUCTS AND SERVICES | 406,999 | 395,776 | 1,223,962 | 1,150,195 |
| Other | 427 | 328 | 1,217 | 1,135 |
| TOTAL REVENUES | 407,426 | 396,104 | 1,225,179 | 1,151,330 |
| COSTS AND EXPENSES: | | | | |
| Cost of products sold | 159,289 | 156,354 | 487,446 | 444,916 |
| Cost of services sold | 147,973 | 143,983 | 441,347 | 427,346 |
| Selling, general and administrative expenses | 52,971 | 51,151 | 159,647 | 153,421 |
| Research and development expenses | 1,562 | 1,896 | 3,695 | 3,505 |
| Facilities discontinuance and reorganization costs | 178 | 176 | 3,233 | 1,711 |
| Other | (251) | 199 | (820) | (447) |
| TOTAL COSTS AND EXPENSES | 361,722 | 353,759 | 1,094,548 | 1,030,452 |
| INCOME FROM CONTINUING OPERATIONS BEFORE INTEREST, INCOME TAXES, AND MINORITY INTEREST | 45,704 | 42,345 | 130,631 | 120,878 |
| Interest income | 1,079 | 1,483 | 3,521 | 5,275 |
| Interest expense | (4,148) | (4,814) | (12,661) | (16,881) |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST | 42,635 | 39,014 | 121,491 | 109,272 |
| Provision for income taxes | 13,339 | 14,851 | 46,167 | 44,798 |
| INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST | 29,296 | 24,163 | 75,324 | 64,474 |
| Minority interest in net income | 1,555 | 1,625 | 4,701 | 3,909 |
| INCOME FROM CONTINUING OPERATIONS | 27,741 | 22,538 | 70,623 | 60,565 |
| Discontinued operations: | | | | |
| Equity in income of United Defense, L.P. (net of income taxes of $3,523 and $2,329 for the three month periods, respectively, and $13,389 and $12,439 for the nine month periods, respectively) | 5,487 | 6,571 | 29,117 | 28,914 |
| NET INCOME | $ 33,228 | $ 29,109 | $ 99,740 | $ 89,479 |
| Average shares of common stock outstanding | 48,768 | 49,730 | 49,113 | 49,989 |
| Earnings per common share: | | | | |
| Income from continuing operations | $ .57 | $ .46 | $ 1.44 | $ 1.21 |
| Income from discontinued operations | .11 | .13 | .59 | .58 |
| EARNINGS PER COMMON SHARE | $ .68 | $ .59 | $ 2.03 | $ 1.79 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | $ .20 | $ .19 | $ .60 | $ .57 |

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| (IN THOUSANDS) | SEPTEMBER 30 1997 | DECEMBER 31 1996 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 30,560 | $ 45,862 |
| Receivables | 283,678 | 268,230 |
| Inventories: | | |
| Finished goods | 32,449 | 24,743 |
| Work in process | 31,400 | 25,843 |
| Raw material and purchased parts | 58,555 | 57,581 |
| Stores and supplies | 19,835 | 17,851 |
| Total inventories | 142,239 | 126,018 |
| Other current assets | 57,082 | 68,436 |
| TOTAL CURRENT ASSETS | 513,559 | 508,546 |
| Property, plant and equipment, at cost | 1,210,973 | 1,187,452 |
| Allowance for depreciation | (698,282) | (674,340) |
| | 512,691 | 513,112 |
| Cost in excess of net assets of businesses acquired, net | 181,834 | 195,387 |
| Net assets of discontinued operations | 47,739 | 54,376 |
| Other assets | 51,182 | 52,998 |
| TOTAL ASSETS | $1,307,005 | $1,324,419 |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Notes payable and current maturities | $ 32,524 | $ 26,182 |
| Accounts payable | 102,906 | 111,912 |
| Accrued compensation | 44,786 | 44,501 |
| Other current liabilities | 111,228 | 111,432 |
| TOTAL CURRENT LIABILITIES | 291,444 | 294,027 |
| Long-term debt | 223,768 | 227,385 |
| Deferred income taxes | 33,720 | 34,182 |
| Other liabilities | 87,085 | 87,538 |
| TOTAL LIABILITIES | 636,017 | 643,132 |
| SHAREHOLDERS' EQUITY | | |
| Common stock and additional paid-in capital | 160,349 | 150,974 |
| Cumulative adjustments for translation and pension liability | (44,239) | (26,095) |
| Retained earnings | 864,994 | 794,473 |
| Treasury stock | (310,116) | (238,065) |
| TOTAL SHAREHOLDERS' EQUITY | 670,988 | 681,287 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $1,307,005 | $1,324,419 |

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

| (IN THOUSANDS) | NINE MONTHS ENDED SEPTEMBER 1997 | 1996 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 99,740 | $ 89,479 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 79,813 | 74,720 |
| Amortization | 6,842 | 6,975 |
| Equity in earnings of unconsolidated entities | (43,258) | (41,906) |
| Dividends or distributions from unconsolidated entities | 49,142 | 27,363 |
| Deferred income taxes | 1,180 | 2,612 |
| Other, net | 3,557 | 2,200 |
| Changes in assets and liabilities, net of acquisitions and dispositions of businesses: | | |
| Accounts receivable | (24,875) | (13,600) |
| Inventories | (19,187) | (5,140) |
| Accounts payable | (1,265) | (4,776) |
| Other assets and liabilities | (1,059) | (13,146) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 150,630 | 124,781 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Expenditures for property, plant and equipment | (105,742) | (105,465) |
| Purchase of businesses, net of cash acquired | -- | (21,030) |
| Investments held-to-maturity, net of purchases | 16,379 | 6,685 |
| Proceeds from sale of businesses | 1,236 | 1,793 |
| Other investing activities | 5,631 | 3,510 |
| NET CASH (USED) BY INVESTING ACTIVITIES | (82,496) | (114,507) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short-term borrowings, net | 12,836 | 12,977 |
| Current maturities and long-term debt: | | |
| Additions | 56,430 | 185,900 |
| Reductions | (56,760) | (175,695) |
| Cash dividends paid on common stock | (29,504) | (28,520) |
| Common stock issued-options | 5,228 | 4,581 |
| Common stock acquired for treasury | (69,109) | (29,973) |
| Other financing activities | (1,275) | 500 |
| NET CASH (USED) BY FINANCING ACTIVITIES | (82,154) | (30,230) |
| Effect of exchange rate changes on cash | (1,282) | (1,534) |
| Net (decrease) in cash and cash equivalents | (15,302) | (21,490) |
| Cash and cash equivalents at beginning of period | 45,862 | 76,669 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 30,560 | $ 55,179 |

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Cont'd.)

Notes to Consolidated Financial Statements

Commitments and Contingencies:

Federal Excise Tax and Other Matters Related to the Five-ton Truck Contract

In the third quarter of 1995, the Company, the United States Army, and the United States Department of Justice concluded a settlement of Harsco's previously reported claims against the Army relating to Federal Excise Tax ("FET") arising under a completed 1986 contract for the sale of five-ton trucks to the Army. On September 27, 1995, the Army paid the Company $49 million in accordance with the settlement terms. The Company released the Army from any further liability for those claims, and the Department of Justice released the Company from a threatened action for damages and civil penalties based on an investigation conducted by the Department's Commercial Litigation Branch that had been pending for several years. During the performance of the five-ton truck contract, the Company recorded an account receivable of $62.5 million for its claims against the Army relating to Federal Excise Tax. As a result of accepting the $49 million in settlement, the Company recorded a non-recurring, pre-tax, non-cash charge of $13.5 million (after-tax charge of $8.2 million, $.16 per share), in the third quarter of 1995.

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

The settlement does not resolve the claim by the Internal Revenue Service that, contrary to the Company's position, certain cargo truck models sold by the Company should be considered to have gross vehicle weights in excess of the 33,000 pound threshold under the Federal Excise Tax law, are not entitled to an exemption from the Federal Excise Tax under any other theory, and therefore are taxable. On December 19, 1996, the District Director of the Internal Revenue Service issued a 30-day letter and examination report (the "Report") that proposed an increase in Federal Excise Tax of $33.7 million plus penalties of $6.9 million and applicable interest currently estimated by the Company to be $33.7 million, primarily on the grounds that those cargo truck models are subject to the Federal Excise Tax. This proposed increase in Federal Excise Tax takes into account offsetting credits of $9.2 million, based on a partial allowance of the Company's $23.4 million claim that certain truck components are exempt from the Federal Excise Tax. The Report disallowed in full the Company's additional claim that it is entitled to the entire $52 million of Federal Excise Tax (plus applicable interest currently estimated by the Company to be $29.9 million) the Company has paid on the five-ton trucks, on the grounds that such trucks qualify for the Federal Excise Tax exemption applicable to certain vehicles specially designed for the primary function of off-highway transportation. In the event that the Company ultimately receives from the Internal Revenue Service a refund of tax (including applicable interest) with respect to which the Company has

ITEM 1. FINANCIAL STATEMENTS (Cont'd.)

already received reimbursement from the Army, the refund would be allocated between the Company and the Army. The Company plans to vigorously contest the findings of the District Director. On March 19, 1997, the Company filed its formal written protest to these findings with the Internal Revenue Service Office of the Regional Director of Appeals. Although there is risk of an adverse outcome, the Company believes that the cargo trucks are not taxable. No recognition has been given in the accompanying financial statements for the Company's claim or the dispute with the Internal Revenue Service.

The settlement agreement with the Army preserves the Company's right to seek reimbursement of after-imposed tax from the Army in the event that the cargo trucks are determined to be taxable, but the agreement limits the reimbursement to a maximum of $21 million. Additionally, in an earlier contract modification, the Army accepted responsibility for $3.6 million of the potential tax, bringing its total potential responsibility up to $24.6 million.

Under the settlement, the Army agreed that if the cargo trucks are determined to be taxable, the 1993 decision of the Armed Services Board of Contract Appeals (which ruled that the Company is entitled to a price adjustment to the contract for reimbursement of FET paid on vehicles that were to be delivered after October 1, 1988) will apply to the question of the Company's right to reimbursement from the Army for after-imposed taxes on the cargo trucks. In the Company's view, application of the 1993 decision will favorably resolve the principal issues regarding any such future claim by the Company. Therefore, the Company believes that even if the cargo trucks are ultimately held to be taxable, the Army would be obligated to reimburse the Company for a majority of the tax, (but not interest or penalty, if any), resulting in a net maximum liability for the Company of $9.1 million plus penalties of $6.9 million and applicable interest currently estimated by the Company to be $33.7 million. The Company believes it is unlikely that resolution of this matter will have a material adverse effect on the Company's financial position, however, it could have a material effect on quarterly or annual results of operations.

M9 Armored Combat Earthmover Claim

The Company and its legal counsel are of the opinion that the U.S. Government did not exercise option three under the M9 Armored Combat Earthmover (ACE) contract in a timely manner, with the result that the unit prices for options three, four and five are subject to renegotiation. Claims reflecting the Company's position have been filed with respect to all options purported to be exercised, totaling in excess of $60 million plus interest. No recognition has been given in the accompanying financial statements for any recovery on these claims. In July 1995, the Armed Services Board of Contract Appeals denied the motions for summary judgment which had been filed by both the Company and the Government. The Company is continuing to pursue its claim before the Armed Services Board of Contract Appeals.

ITEM 1. FINANCIAL STATEMENTS (Cont'd.)

Other Litigation

In 1992, the U.S. Government filed a counterclaim against the Company in a civil suit alleging violations of the False Claims Act and breach of a contract to supply M109A2 Self-Propelled Howitzers. The counterclaim was filed in the United States Claims Court in response to the Company's claim of approximately $5 million against the Government for costs incurred on this contract relating to the same issue. In May 1997, the Court issued a decision in the first phase of the case, denying the Company's claim for reimbursement and granting the Government's counterclaim for breach of contract and penalties under the False Claims Act. The Court will consider the amount of damages and penalties in the next phase of the case, and the decision will then be subject to the right of appeal. The Government has filed a brief seeking penalties and treble damages totaling $26 million. The Company intends to vigorously oppose this claim. The Company and its counsel believe that resolution of these claims will not have a material adverse effect on the Company's financial position, however, it could have a material effect on quarterly or annual results of operations.

Iran's Ministry of Defense initiated arbitration procedures against the Company in 1991 under the rules of the International Chamber of Commerce for damages allegedly resulting from breach of various contracts executed by the Company and the Ministry of Defense between 1970 and 1978. The contracts were terminated in 1978 and 1979 during the period of civil unrest in Iran that preceded the Iranian revolution. Iran asserted a claim under one contract for repayment of a $7.5 million advance payment it made to the Company, plus interest at 12% through June 27, 1991 in the amount of $25.3 million. Iran also asserted a claim for damages under other contracts for $76.3 million. The Company asserted various defenses and also filed counterclaims against Iran for damages in excess of $7.5 million which it sustained as a result of Iran's breach of contract, plus interest. At an arbitration hearing held in January 1996, Iran reduced the $76.3 million portion of its claim to approximately $34.4 million. The International Court of Arbitration took the case under advisement and in September 1996, awarded Iran a net amount of approximately $1.2 million. This represents an award of $7.5 million to Iran for the advance payment, offset by an award of $6.3 million to the Company for damages and legal costs and the denial of all pre-award interest claims for both parties. The Company and Iran have each filed appeals in the Supreme Court of Switzerland. The Company's management and its counsel believe it is unlikely that resolution of these claims will have a material adverse effect on the Company's financial position or results of operations.

In 1992, the United States Government through its Defense Contract Audit Agency commenced an audit of certain contracts for sale of tracked vehicles by the Company to foreign governments, which were financed by the United States Government through the Defense Security Assistance Agency. The Company cooperated with the audit and responded to a number of issues raised by the audit. In September 1994, the Company received a subpoena issued by the Department of Defense Inspector General seeking various documents relating to sale contracts between the Company and foreign governments which

ITEM 1. FINANCIAL STATEMENTS (Cont'd.)

were funded by the Defense Security Assistance Agency. The Company is continuing to cooperate and is responding to the subpoena. Based on discussions with the agent in charge and the Government auditors, it appears that the investigation focuses on whether the Company made improper certifications to the Defense Security Assistance Agency and other government contract accounting matters. The Government has not asserted any claims at this time and it is too early to know whether a claim will be asserted or what the nature of any such claim would be, however, the Company's management and its counsel believe it is unlikely that this issue will have a material adverse effect on the Company's financial position.

In June 1994, the shareholder of the Ferrari Group, a Belgium holding company involved in steel mill services and other activities, filed a legal action in Belgium against Heckett MultiServ, S.A. and S.E.A.E., subsidiaries of MultiServ International N.V. (a subsidiary of the Company). The action alleges that these two subsidiaries breached contracts arising from letters of intent signed in 1992 and 1993 concerning the possible acquisition of the Ferrari Group, claiming that the subsidiaries were obligated to proceed with the acquisition and failed to do so. The action seeks damages of 504 million Belgian francs (approximately U.S. $14 million). The Company intends to vigorously defend against the action and believes that based on conditions contained in the letters of intent and other defenses it will prevail. The Company and its counsel believe that it is unlikely that these claims will have a material adverse effect on the Company's financial position or results of operations.

Environmental

The Company is involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a "potentially responsible party" for certain waste disposal sites. While each of these matters is subject to various uncertainties, it is probable that the Company will agree to make payments toward funding certain of these activities and it is possible that some of these matters will be decided unfavorably to the Company. The Company has evaluated its potential liability, and its financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Consolidated Balance Sheets at September 30, 1997 and December 31, 1996, include an accrual of $3.4 million and $3.9 million respectively for environmental matters. The amounts charged to earnings on a pre-tax basis related to environmental matters totaled $0.4 million and $0.2 million for the nine months of 1997 and 1996, 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. Subject to the imprecision in estimating future environmental costs, the Company does not expect that any sum it may have to pay in

ITEM 1. FINANCIAL STATEMENTS (Cont'd.)

connection with environmental matters in excess of the amounts recorded or disclosed above would have a material adverse effect on its financial position or results of operations.

Other

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

Financial Instruments and Hedging

The Company has subsidiaries principally operating in North America and Latin America, Europe and Asia-Pacific. These operations are exposed to fluctuations in related foreign currencies, in the normal course of business. The Company seeks to reduce exposure to foreign currency fluctuations, primarily the European currencies, through the use of forward exchange contracts. The Company does not hold or issue financial instruments for trading purposes, and it is the Company's policy to prohibit the use of derivatives for speculative purposes. The Company has a Foreign Currency Risk Management Committee that meets periodically to monitor foreign currency risks.

The Company enters into forward foreign exchange contracts to hedge transactions on its non-U.S. subsidiaries, for firm commitments to purchase equipment and for export sales denominated in foreign currencies. These contracts generally are for 90 to 180 days or less. For those contracts that hedge an identifiable transaction, gains or losses are deferred and accounted for as part of the underlying transactions. The cash flows from forward exchange contracts accounted for as hedges of identifiable transactions are classified consistent with the cash flows from the transaction being hedged. The Company also enters into forward foreign exchange contracts for intercompany foreign currency commitments. These foreign exchange contracts do not qualify as hedges for financial reporting purposes, and any related gain or loss is included in income on a current basis. As of September 30, 1997, the total of all forward exchange contracts amounted to $5.6 million with a favorable marked to market fluctuation of $0.1 million.

ITEM 1. FINANCIAL STATEMENTS (Cont'd.)

Foreign Currency Translation:

Effective January 1, 1998, the Company's operations in Brazil will no longer be accounted for as a highly inflationary economy in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Brazil is no longer considered a highly inflationary economy because the three-year cumulative rate of inflation is below 100%. As a result of this change, the Company will measure the financial statements of its Brazilian entity using the Brazilian real as the entity's functional currency.

Discontinued Operations:

On August 25, 1997, Harsco and FMC Corporation signed an agreement to sell United Defense, L.P. to The Carlyle Group for $850 million, and the sale was completed on October 6, 1997. Prior to the sale, FMC had been the managing general partner and 60% owner of United Defense, L.P., while Harsco owned the balance of 40% as the limited partner. United Defense supplies ground combat and naval weapons systems for the U.S. and military customers around the world. United Defense had 1996 sales of $1 billion.

On the Consolidated Statements of Income, "Equity in income of United Defense, L.P." includes equity income through August 1997 (the measurement date) from Harsco's 40% limited partnership interest in United Defense, L.P. The sale resulted in pre-tax cash proceeds to Harsco of approximately $340 million and is expected to result in an estimated after tax gain on the sale in the fourth quarter of approximately $150 million or $3.05 per share after taking into account certain retained liabilities and estimated post closing net worth adjustments.

New Financial Accounting Standards Issued

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings per Share" (SFAS 128) which is effective for periods ending after December 15, 1997. The overall objective of SFAS 128 is to simplify the calculation of earnings per share (EPS) and achieve comparability with International Accounting Standards. The Company will be required to adopt SFAS 128 in the fourth quarter of 1997, but does not expect that the adoption will have a material effect on earnings per share.

Opinion of Management:

Financial information furnished herein, which is unaudited, reflects in the opinion of management all adjustments (all of which are of a recurring nature) that are necessary to present a fair statement of the interim period.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

FINANCIAL CONDITION AND LIQUIDITY

Net cash provided by operating activities was $150.6 million in the first nine months of 1997 compared with $124.8 million in 1996. During the nine months of 1997, cash distributions, which were principally from the recently divested Company's share of United Defense, L.P., of $49.1 million were received from unconsolidated entities compared with $27.4 million in the first nine months of 1996. The increase in working capital requirements in the first nine months of 1997 compared with the comparable period in 1996 reflects the growth in the business.

On October 6, 1997, the Company sold its 40% limited partnership interest in United Defense, L.P. The sale resulted in pre-tax cash proceeds of approximately $340 million which will be recorded as investing activity in the fourth quarter of 1997.

Capital expenditures for the first nine months of 1997 were $105.7 million, exceeding the previous record of $105.5 million in 1996, reflecting the Company's continuing program to support growth, and to improve productivity and product quality. Proceeds from the sale of property, plant and equipment in the nine months of 1997 provided $6.4 million in cash compared with $2.5 million during the first nine months of 1996. Cash used for financing activities for the nine months of 1997 included a $12.8 million increase in short-term debt and $29.5 million of cash dividends paid on common stock.

The Company has maintained a policy of reacquiring its common stock in unsolicited open market or privately-negotiated transactions at prevailing market prices for several years. In January 1997, the Board of Directors authorized the purchase, over a one-year period, of up to 2,000,000 shares of the Company's common stock. The total number of shares purchased under this program for the nine months ended September 30, 1997 was 1,666,421 shares of common stock for approximately $68.4 million. Cash and cash equivalents decreased $15.3 million to $30.6 million at September 30, 1997.

Other matters which could affect cash flows in the future are discussed under Part 1, item 1 "Notes to Consolidated Financial Statements."

The Company continues to maintain a good financial position, with net working capital of $222.1 million, an increase from the $214.5 million at December 31, 1996. Current assets amounted to $513.5 million, and current liabilities were $291.4 million, resulting in a current ratio of 1.8 to 1, up from 1.7 to 1 at December 31, 1996. With total debt of $256.3 million and equity of $671.0 million at September 30, 1997, the total debt as a percent of capital was 27.6%, compared with 27.1% at December 31, 1996.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd.)

FINANCIAL CONDITION AND LIQUIDITY (continued)

The stock price range during the first nine months was 47 7/8 - 33 1/4. Harsco's book value per share at September 30, 1997 was $13.92, compared with $13.73 at December 31, 1996. The Company's annualized return on average equity for the nine months of 1997 was 19.5%, compared with 18.2% for the year 1996. The annualized return on average assets was 17.8%, compared with the 16.8% for the year 1996. The annualized return on average capital for the nine months was 15.2%, compared with 14.1% for the year 1996.

The Company has available through a syndicate of banks a $400 million multi-currency five-year revolving credit facility, extending through July 2001. This facility serves as back-up to the Company's commercial paper program. As of September 30, 1997, there were no borrowings outstanding under this facility.

The Company has a U.S. commercial paper borrowing program under which it can issue up to $300 million of short-term notes in the U.S. commercial paper market. In addition, the Company has a 3 billion Belgian Franc program, equivalent to approximately US $83 million. The Belgian program will be used to borrow a variety of Eurocurrencies in order to fund the Company's European operations more efficiently and in appropriate currencies. The Company limits the aggregate commercial paper and syndicated credit facility borrowings at any one time to a maximum $400 million. At September 30, 1997, the Company had $76.3 million of commercial paper debt outstanding under the Commercial Paper programs.

The Company's outstanding long-term notes are rated A by Standard & Poor's, A by Fitch Investors Service and A-3 by Moody's. The Company's commercial paper is rated A-1 by Standard & Poor's, F-1 by Fitch Investors Service and P-2 by Moody's. The Company also has on file, with the Securities and Exchange Commission a Form S-3 shelf registration for the possible issuance of up to an additional $200 million of new debt securities, preferred stock or common stock.

As indicated by the above, the Company's financial position and debt capacity should enable it to meet its current and future requirements. As additional resources are needed, the Company should be able to obtain funds readily and at competitive costs.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd.)

RESULTS OF OPERATIONS
THIRD QUARTER OF 1997 COMPARED
WITH THIRD QUARTER OF 1996

Revenues from continuing operations of $407.4 million for the third quarter of 1997, were 3% higher than last year's comparable period. The increase was due principally to higher sales for gas control and containment equipment and metal reclamation and mill services, despite the adverse effect of the strengthening U.S. dollar. Other product classes with increased performance included scaffolding, shoring and forming equipment, grating and process equipment. Railway maintenance equipment experienced a decline in revenues. Excluding the adverse effect of the strengthening U.S. dollar, revenues from continuing operations were 6% above last year's comparable period.

Cost of products and services increased as a result of higher sales. Selling, general and administrative expenses increased, as a result of higher compensation and commission costs.

Income from continuing operations before income taxes and minority interest was up 9% from the comparable period last year due to improved results for metal reclamation, scaffolding, shoring and forming equipment, and gas control and containment equipment. The effective income tax rate for continuing operations for the third quarter 1997 decreased to 31% from 38% in 1996 due to lower effective tax rates on United States and international earnings.

Income from continuing operations of $27.7 million, was up 23% from the comparable period in 1996. Income from continuing operations per common share was $.57, up 24% from $.46 which was recorded in 1996.

Income from discontinued operations which is the after-tax results of the recently divested Company's share of United Defense, L.P. decreased principally due to a change in income taxes and that 1997 results include equity income only through August 1997, the measurement date. Income per common share from discontinued operations was $.11, down from $.13 recorded in the third quarter of 1996.

Net income of $33.2 million, a record third quarter was up 14% from the comparable period in 1996. Net income per common share was $.68, up 15% from the $.59 recorded in 1996.

Sales of the Metal Reclamation and Mill Services Group, at $154.8 million, were 3% above 1996's third quarter, as current and new contracts more than offset the adverse effect of the strengthening U.S. dollar, principally against certain European currencies. Sales for the Infrastructure and Construction Group, at $107.7 exceed last years comparable period. Sales for the Process Industry Products Group, at $144.5 were up 5% due to increased sales of gas control and containment equipment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd.)

RESULTS OF OPERATIONS
THIRD QUARTER OF 1997 COMPARED
WITH THIRD QUARTER OF 1996 (continued)

Operating profit for the Metal Reclamation and Mill Services Group increased 12% to $22.3 million. The Infrastructure and Construction Group posted an operating profit of $12.2 million, 4% higher than the 1996 third quarter. Operating profit for the Process Industry Products Group, at $14.5 million, was up 2% from the prior year's third quarter, principally reflecting higher results for gas control and containment equipment.

In addition to the Group reporting noted above, the Company views itself as a diversified industrial services and manufacturing company. Total industrial services sales, which include Metal Reclamation and Mill Services Group and Infrastructure and Construction Group service businesses, principally scaffolding services and railway maintenance of way services, were $197.3 million in the third quarter of 1997 and $189.9 million in 1996, or approximately 48% of net sales. The total manufacturing sales for 1997 were $209.7 million or approximately 52% of net sales, which includes sales from the Infrastructure and Construction Group and the Process Industry Products Group. The total manufacturing sales for the third quarter of 1996 were $205.9 million or approximately 52% of net sales.

The operating profit for industrial services for 1997 was $26.6 million compared with $23.2 million in 1996, or approximately 55% and 51%, respectively, of total Group operating profit. The operating profit from manufacturing for 1997 was $21.7 million compared with $22.5 million in 1996, which is approximately 45% and 49%, respectively, of total Group operating profit.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd.)

RESULTS OF OPERATIONS
FIRST NINE MONTHS OF 1997 COMPARED
WITH FIRST NINE MONTHS OF 1996

Revenues from continuing operations for the first nine months of 1997 were $1.23 billion, 6% above last year's comparable period. The increase was due principally to higher product sales of gas control and containment equipment, which included an acquisition in April of 1996. Higher product sales were also recorded for process equipment, grating, pipe fittings, railway maintenance of way equipment, and roofing granules and slag abrasives. In addition, service sales in metal reclamation and mill services increased despite being adversely affected by the strengthening of the U.S. dollar, principally against certain European currencies, as well as the divesting of certain non-core businesses in Europe in April of 1996. Service sales for scaffolding, shoring and forming equipment, as well as railway maintenance contract services, also increased. Excluding the adverse effect of the strengthening of the U.S. dollar, revenues from continuing operations for the first nine months of 1997 were 9% above last year's comparable period.

Cost of products sold increased, principally due to higher volume which included an acquisition in 1996. Cost of services sold also increased as a result of increased sales of services. Selling, general and administrative expenses increased, as a result of higher compensation costs and sales commissions, as well as the inclusion of an acquired company.

Income from continuing operations before income taxes and minority interest was up 11% from the comparable period last year due to improved performance. Higher earnings from continuing operations in the first nine months of 1997 were due principally to higher results for gas control and containment, as well as metal reclamation and mill services. These items were partially offset by lower results for process equipment and railway maintenance of way equipment and contract services, as well as a $1.4 million provision ($.02 earnings per share) for an impairment loss arising from the disposal of the Company's Shell and Tube business. Interest expense decreased as a result of the continued reduction of the Company's outstanding debt and average interest rate. The effective income tax rate for continuing operations for 1997 was 38%, versus 41% in 1996. The reduction in the income tax rate is primarily due to lower effective tax rates on United States and international earnings.

Income from continuing operations of $70.6 million for the first nine months of 1997, was up 17% from the comparable period in 1996. Income per common share from continuing operations was $1.44, up 19% from the $1.21 which was recorded in 1996.

Income from discontinued operations which is the after-tax results of the recently divested Company's share of United Defense, L.P. approximated the results which were recorded in the first nine months in 1996. Income per common share from discontinued operations was $.59, up slightly from last year.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd.)

RESULTS OF OPERATIONS
FIRST NINE MONTHS OF 1997 COMPARED
WITH FIRST NINE MONTHS OF 1996 (continued)

Net income of $99.7 million, was up 11% from the comparable period in 1996 which was the highest first nine months ever. Net income per common share was $2.03, up 13% from $1.79 in 1996.

Sales of the Metal Reclamation and Mill Services Group, at $463.1 million, were above 1996's first nine months, despite the strengthening of the U.S. dollar, principally against certain European currencies and the divesting of certain non-core businesses in Europe in April of 1996. Sales for the Infrastructure and Construction Group, at $322.5 million which included higher sales for all product classes were above last year's similar period. Sales for the Process Industry Products Group, at $438.4 million, were higher than the prior year's first nine months due principally to increased sales of gas control and containment equipment, which included an acquisition in April of 1996.

Operating profit for the Metal Reclamation and Mill Services Group, at $66.8 million, exceeded 1996's first nine months despite the adverse effects of the strong U.S. dollar. The Infrastructure and Construction Group posted an operating profit of $31.3 million, which was lower than the $33.7 million recorded in 1996's first nine months, due principally to lower results for railway maintenance of way equipment and contract services, as well as scaffolding, shoring and forming equipment. Operating profit for the Process Industry Products Group, at $45.1 million, was significantly above the prior year's first nine months and reflected principally higher results for gas control and containment equipment, which included an acquisition and more than offset lower income for process equipment.

In addition to the Group reporting noted above, the Company views itself as a diversified industrial services and manufacturing company. Total industrial service sales, which include Metal Reclamation and Mill Services Group and Infrastructure and Construction Group service businesses, principally scaffolding services and railway maintenance of way services, were $585.3 million in 1997 and $567.7 million in 1996, or approximately 48% and 49% of net sales, respectively. The total manufacturing sales for 1997 were $638.7 million or approximately 52% of net sales, which includes sales from the Infrastructure and Construction Group and the Process Industry Products Group. The total manufacturing sales for 1996 were $582.5 million or approximately 51% of net sales.

The operating profit for industrial services for 1997 was $75.9 million compared with $74.2 million in 1996, or approximately 54% and 56% respectively, of total Group operating profit. The operating profit from manufacturing for 1997 was $64.3 million compared with $58.9 million in 1996, which is approximately 46% and 44%, respectively, of total Group operating profit.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd.)

Safe Harbor Statement:

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

These factors include, but are not limited to: (1) changes in the world-wide business environment in which the Company operates, including import, licensing, and trade restrictions, interest rates, and capital costs; (2) changes in government laws and regulations, including taxes; (3) market and competitive changes, including market demand and acceptance for new products, services, and technologies, and (4) effects of unstable governments and business conditions in emerging economies.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information on legal proceedings is included under Part I, Item 1., the section labeled "Commitments and Contingencies."

ITEM 2. CHANGES IN SECURITIES

On June 24, 1997, the Company adopted a revised Shareholder Rights Plan to replace the Company's 1987 Rights Plan at its expiration on September 28, 1997. To implement the new Plan, the Board declared a dividend to shareholders of record on September 28, 1997, of one Right for each share of common stock, which under certain circumstances entitles the holder to purchase 1/100th of a share of Harsco Junior Participating Cumulative Preferred Stock at an exercise price of $150. Initially, the Rights are attached to the shares of common stock and are not exercisable. Details concerning the potential exercisability of the Rights and the other provisions of the Plan are provided in the Company's Form 10-Q for the period ending June 30, 1997, and the Form 8-A filed by the Company with the Securities and Exchange Commission on September 26, 1997.

ITEM 5. OTHER INFORMATION

DIVIDEND ACTION:

On September 23, 1997, Harsco Corporation announced that the Board of Directors declared a quarterly cash dividend of 20 cents per share, payable November 14, 1997, to shareholders of record on October 15, 1997.

ITEM 6(a). EXHIBITS

The following exhibits are attached:

a.) Exhibit No. 2 Agreements for Sale of United Defense, L.P. - Incorporated by reference to 8-K filed October 16, 1997.

b.) Exhibit No. 4 Shareholder Rights Agreement dated as of September 28, 1997 - Incorporated by reference to Form 8-A filed September 26, 1997.

c.) Exhibit No. 11 Computation of Fully Diluted Net Income Per Common Share.

d.) Exhibit No. 12 Computation of Ratios of Earnings to Fixed Charges.

e.) Exhibit No. 27 Financial Data Schedule.

ITEM 6(b) REPORTS ON FORM 8-K

a.) An 8-K was filed on September 3, 1997 announcing the signing of a definitive agreement for the sale of United Defense, L.P. to the Carlyle Group.

b.) An additional 8-K was filed on October 16, 1997 related to the completion of the sale of United Defense, L.P. on October 6, 1997.

SIGNATURES

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

HARSCO CORPORATION
(Registrant)

DATE October 28, 1997 /S/ Leonard A. Campanaro

Leonard A. Campanaro
Senior Vice President and
Chief Financial Officer

DATE October 28, 1997 /S/ Salvatore D. Fazzolari

Salvatore D. Fazzolari
Vice President and Controller

EXHIBIT INDEX

| | |
|---|---|
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| Exhibit No. 12 | Computation of Ratios of Earnings to Fixed Charges. |
| Exhibit No. 27 | Financial Data Schedule. |

Exhibit 11

HARSCO CORPORATION
COMPUTATION OF FULLY DILUTED NET INCOME PER COMMON SHARE
(dollars in thousands except per share)

| | 3 MONTHS ENDED SEPT. 30 | | 9 MONTHS ENDED SEPT. 30 | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| Net income | $ 33,228 | $ 29,109 | $ 99,740 | $ 89,479 |
| Average shares of common stock outstanding used to compute earnings per common share | 48,768,453 | 49,730,240 | 49,113,259 | 49,988,524 |
| Additional common shares to be issued assuming exercise of stock options, net of shares assumed reacquired | 482,319 | 380,070 | 440,929 | 409,034 |
| Shares used to compute dilutive effect of stock options | 49,250,772 | 50,110,310 | 49,554,188 | 50,397,558 |
| Fully diluted net income per common share | $ .67 | $ .59 | $ 2.01 | $ 1.78 |
| Net income per common share | $ .68 | $ .59 | $ 2.03 | $ 1.79 |

HARSCO CORPORATION

Exhibit 12

Computation of Ratios of Earnings to Fixed Charges

(In Thousands of Dollars)

| | Nine Months Ended 9/30/97 | YEARS ENDED DECEMBER 31 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| Consolidated Earnings: | | | | | | |
| Pre-tax income from continuing operations (1) | $ 116,790 | $ 145,984 | $ 107,073 | $ 84,197 | $ 73,108 | $ 106,880 |
| Add fixed charges computed below | 18,440 | 26,181 | 33,121 | 37,982 | 23,879 | 22,425 |
| Net adjustments for equity companies | (735) | (181) | (466) | (134) | (363) | (454) |
| Net adjustments for capitalized interest | -- | -- | -- | (274) | (172) | (134) |
| Consolidated Earnings Available for Fixed Charges | $ 134,495 | $ 171,984 | $ 139,728 | $ 121,771 | $ 96,452 | $ 128,717 |
| Consolidated Fixed Charges: | | | | | | |
| Interest expense per financial statements (2) | $ 12,661 | $ 21,483 | $ 28,921 | $ 34,048 | $ 19,974 | $ 18,882 |
| Interest expense capitalized | 96 | 131 | 134 | 338 | 332 | 355 |
| Portion of rentals (1/3 ) representing an interest factor | 5,683 | 4,567 | 4,066 | 3,596 | 3,573 | 3,188 |
| Interest expense for equity companies whose debt is guaranteed (3) | -- | -- | -- | -- | -- | -- |
| Consolidated Fixed Charges | $ 18,440 | $ 26,181 | $ 33,121 | $ 37,982 | $ 23,879 | $ 22,425 |
| Consolidated Ratio of Earnings to Fixed Charges | 7.29 | 6.57 | 4.22 | 3.21 | 4.04 | 5.74 |

(1) 1992 excludes the cumulative effect of change in accounting method for postretirement benefits other than pensions.

(2) Includes amortization of debt discount and expense.

(3) No fixed charges were associated with debt of less than fifty percent owned companies guaranteed by the Company during the five year period 1992 through 1996, and the nine months ended September 30, 1997.

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9-MOS
DEC-31-1997
SEP-30-1997
30,560
0
291,416
(7,738)
142,239
513,559
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(698,282)
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0
82,250
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1,428
12,661
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46,167
70,623
29,117
0
0
99,740
2.03
2.01