

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
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NALCO CHEMICAL CO

CIK: **69598** | IRS No.: **361520480** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-04957** | Film No.: **95535970**
SIC: **2890** Miscellaneous chemical products

Mailing Address
*ONE NALCO CENTER
NAPERVILLE IL 60563-1198*

Business Address
*ONE NALCO CTR
NAPERVILLE IL 60563
7083051000*

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 1995

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 1-4957

NALCO CHEMICAL COMPANY

Incorporated in the State of Delaware

Employer Identification No. 36-1520480

One Nalco Center, Naperville, Illinois 60563-1198

Telephone 708-305-1000

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

The number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 1995 was 67,554,770 shares common stock - par value \$.1875 a share.

NALCO CHEMICAL COMPANY

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PART I. FINANCIAL INFORMATION

NALCO CHEMICAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

Dollars in millions	March 31, 1995 (Unaudited)	December 31, 1994 (Note)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 44.2	\$ 45.1
Accounts receivable, less allowances of \$6.2 and \$5.6, respectively	209.2	205.9
Inventories		
Finished products	54.8	51.4
Materials and work in process	29.5	32.4
	84.3	83.8
Prepaid expenses, taxes and other current assets	29.3	27.3
Total current assets	367.0	362.1
Investment in and advances to partnership	122.2	109.4
Goodwill, less accumulated amortization of \$16.0 and \$15.1, respectively	111.8	114.4
Other assets	168.3	172.4
Property, plant and equipment	1,095.8	1,067.1
Less allowances for depreciation	(565.2)	(543.2)
	530.6	523.9
	\$1,299.9	\$1,282.2
LIABILITIES/SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	\$ 32.5	\$ 21.6
Accounts payable	108.3	109.1

Accrued formation and consolidation expenses	35.2	43.2
Other current liabilities	109.9	100.4
Total current liabilities	285.9	274.3
Long-term debt	244.5	245.3
Deferred income taxes	55.0	56.8
Accrued postretirement benefits	96.5	95.2
Other liabilities	65.5	66.4
Shareholders' equity	552.5	544.2
	\$1,299.9	\$1,282.2

Note: The Statement of Financial Condition at December 31, 1994 has been derived from the audited financial statements at that date.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

NALCO CHEMICAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

(Amounts in millions, except per share data)	Three Months Ended	
	March 31	
	1995	1994
Net sales	\$315.4	\$336.2
Operating costs and expenses		
Cost of products sold	142.2	150.4
Operating expenses	116.5	126.7
	258.7	277.1
Operating earnings	56.7	59.1
Other income (expense)		
Interest and other income	1.3	2.7
Interest expense	(4.1)	(6.8)
Equity in earnings of partnership	5.6	-
Earnings before income taxes	59.5	55.0
Income taxes	21.7	21.2
Net earnings	\$ 37.8	\$ 33.8
Per common share		
Net earnings - Primary	\$.51	\$.45

Net earnings - Fully diluted	\$.48	\$.42
Cash dividends	\$.24	\$.225
Average primary shares outstanding (in thousands)	68,298	69,533
Average fully diluted shares outstanding (in thousands)	76,374	77,686

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

NALCO CHEMICAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Dollars in millions	Three Months Ended March 31	
	1995	1994
Cash provided by (used for)		
operating activities		
Net earnings	\$ 37.8	\$ 33.8
Adjustments not affecting cash		
Depreciation and amortization	21.6	23.7
Other, net	(13.1)	(3.1)
Changes in current assets and liabilities	6.4	11.9
Net cash provided by operations	52.7	66.3
Investing activities		
Additions to property, plant and equipment	(27.1)	(34.7)
Other	(7.9)	3.2
Net cash used for investing activities	(35.0)	(31.5)
Financing activities		
Cash dividends	(19.2)	(18.3)
Changes in short-term debt	12.2	8.5
Changes in long-term debt	(0.1)	(1.5)

Common stock reacquired	(18.8)	(10.9)
Other	5.5	3.6
Net cash used for financing activities	(20.4)	(18.6)
Effects of foreign exchange rate changes	1.8	1.2
Increase (decrease) in cash and cash equivalents	\$ (0.9)	\$ 17.4

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

NALCO CHEMICAL COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

March 31, 1995

NOTE A -- BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared, without audit, in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. Financial information as of December 31 has been derived from the audited financial statements of the Company, but does not include all disclosures required by generally accepted accounting principles.

It is the opinion of management that the unaudited condensed consolidated financial statements include all adjustments necessary to fairly state the results of operations for the three month periods ended March 31, 1995 and 1994. The results of interim periods are not necessarily indicative of results to be expected for the year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1994.

The unaudited condensed consolidated financial statements and the related notes have been reviewed by Nalco's independent accountants, Price Waterhouse LLP. The Independent Accountants' Review Report is included on page 8.

NOTE B -- SHAREHOLDERS' EQUITY

Shareholders' equity may be further detailed as follows:

Dollars in millions, except per share figures	March 31, 1995	December 31, 1994
Preferred stock - par value \$1.00 per share; authorized 2,000,000 shares; Series B ESOP Convertible Preferred Stock - 403,290 shares at March 31, 1995 and 404,224 shares at December 31, 1994	\$ 0.4	\$ 0.4
Series A Junior Participating Preferred Stock - none issued	-	-
Capital in excess of par value of shares	193.6	194.0
Unearned ESOP compensation	(166.5) 27.5	(168.7) 25.7
Common stock - par value \$.1875 per share; authorized 200,000,000 shares; issued 80,287,568 shares	15.1	15.1
Capital in excess of par value of shares	25.4	25.5
Retained earnings	859.2	840.6
Minimum pension liability adjustment	(5.7)	(5.7)
Foreign currency translation adjustments	(36.6)	(39.3)
Common stock reacquired - at cost 12,732,798 shares at March 31, 1995 and 12,387,441 shares at December 31, 1994	(332.4)	(317.7)
Total shareholders' equity	\$ 552.5	\$ 544.2

NOTE C -- FORMATION AND CONSOLIDATION EXPENSES

The Company adopted a worldwide consolidation plan for manufacturing and support operations during 1994, primarily as a result of the formation of the Nalco/Exxon Energy Chemicals, L.P.

joint venture partnership. The production volume reduction caused by redundancies associated with the joint venture formation required the Company to downsize, close, and consolidate operations. The Company's South Chicago plant will be closed, and several European manufacturing and support operations will also be closed or downsized. In addition, certain support functions will be regionalized on a pan-European basis in order to more efficiently serve customers. Certain redundant assets that were not contributed to the joint venture will be scrapped and written down to net realizable value, and assets associated with other programs will be written off. All of these activities are in process, and should be largely completed by the end of 1995.

As a result of these plans, the Company recorded a pretax provision of \$68 million in 1994 (\$54 million after tax, or 70 cents per share on a fully diluted basis). Included in this provision is the cost of termination benefits for the elimination of over 400 positions, primarily in the United States and Europe, including manufacturing and support personnel, which will require approximately \$27 million in cash. Costs associated with facility closings and the disposition of assets that are no longer productive total approximately \$24 million, including \$21 million for non-cash asset write-offs and \$3 million in cash payments associated with asset disposals. The remaining \$17 million of the pretax costs represents anticipated cash payments for post-closure plant environmental remediation, legal and consulting fees, and other exit costs. The Company anticipates that cash expenditures will be funded through operating cash flows. A tax benefit of \$14 million, net of tax costs associated with the contribution of assets to various joint venture entities, was included in the Company's 1994 income tax provision related to the formation and consolidation expenses.

As of March 31, 1995, \$33 million had been charged against the provision for formation and consolidation expenses and over 300 employees had been terminated. The following table sets forth the details of activity for 1994 and the first quarter 1995:

<TABLE>

<CAPTION>

(in millions)	Termination Benefits	Asset Write-downs	Nalco/Exxon Formation	Legal & Consulting	Environmental Remediation	Total
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1994 accrual	\$27.0	\$23.7	\$ 2.0	\$ 6.3	\$ 9.2	\$68.2
Cash payments	(9.4)	-	(2.0)	(3.0)	-	(14.4)

Noncash charges	-	(10.6)	-	-	-	(10.6)
Balance at December 31, 1994	17.6	13.1	-	3.3	9.2	43.2
Cash payments	(4.9)	(0.5)	-	(1.4)	(0.2)	(7.0)
Noncash charges	-	(1.0)	-	-	-	(1.0)
Balance at March 31, 1995	\$12.7	\$11.6	\$ -	\$ 1.9	\$ 9.0	\$35.2

REPORT OF INDEPENDENT ACCOUNTANTS ON REVIEW

OF INTERIM FINANCIAL INFORMATION

To the Board of Directors and
Shareholders of Nalco Chemical Company

We have reviewed the accompanying interim financial information of Nalco Chemical Company and consolidated subsidiaries as of March 31, 1995, and for the three month period then ended. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial information for it to be in conformity with generally accepted accounting principles.

We previously audited in accordance with generally accepted auditing standards, the statement of consolidated financial condition as of December 31, 1994, and the related statements of consolidated earnings, of cash flows and of common shareholders equity for the year then ended (not presented herein), and in our report dated February 1, 1995 we expressed an unqualified opinion

on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 1994, is fairly stated in all material respects in relation to the statement of consolidated financial condition from which it has been derived.

Price Waterhouse LLP

By: Robert R. Ross
Engagement Partner

April 20, 1995
Chicago, Illinois

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations

First Quarter 1995 Operations Compared to First Quarter 1994

Effective September 1, 1994, Nalco and Exxon Chemical Company (Exxon), a division of Exxon Corporation, formed Nalco/Exxon Energy Chemicals, L.P. (Nalco/Exxon), a joint venture partnership to provide specialty chemical products and services to the petroleum and chemicals industries worldwide. Nalco's investment in the joint venture is accounted for by the equity method.

At the time of formation of Nalco/Exxon, Nalco transferred the business and sales volume of its U.S. Petroleum Chemicals Division and certain petroleum chemical product lines of its international operations to the joint venture. While this formation did not change Nalco's net assets or results of operations, several historical captions in the consolidated financial statements were affected. Because results for the first quarter 1994 have not been reclassified to exclude petroleum chemical operations, the following unaudited statement of consolidated earnings for the quarter ended March 31, 1994 is presented. It reflects results of operations on a comparable basis with 1995; that is, Nalco petroleum chemical operations are excluded and recognized as if they were accounted for by the equity method.

(Amounts in millions)	Three Months Ended	
	March 31	
	1995	1994
Net sales	\$315.4	\$285.0
Operating costs and expenses		

Cost of products sold	142.2	127.2
Operating expenses	116.5	106.3
	258.7	233.5
Operating earnings	56.7	51.5
Other income (expense)		
Interest and other income	1.3	2.7
Interest expense	(4.1)	(6.1)
Equity in earnings of partnership	5.6	5.2
Earnings before income taxes	59.5	53.3
Income taxes	21.7	19.5
Net earnings	\$ 37.8	\$ 33.8

* Reclassified

The following discussion of results of operations compares the first quarter 1995 to the reclassified first quarter 1994 results presented above.

Sales for the quarter increased 11 percent over last year, with all five divisions reporting improved results. Sales by the Water and Waste Treatment Division rose 5 percent, with a double-digit gain posted by the UNISOLV Group and a solid improvement recorded by the WATERGY Group. More modest increases were reported by the Basic Industry and Waste Treatment Chemicals Groups. The Process Chemicals Division reported a 6 percent sales improvement, with double-digit growth posted by the General Industry, Mining and Mineral Processing, and Pulp and Paper Chemicals Groups. These gains were partly offset by a double-digit decline reported by the Absorbent Chemicals Group. Sales by the European Division rose 16 percent, partially as a result of the weaker dollar compared to a year ago. However, double-digit gains in local currencies were turned in by subsidiaries in Italy, Spain, and Saudi Arabia, as well as the Division's Pan European Paper business. The Latin American Division posted a 25 percent sales improvement, with gains reported by all subsidiary companies in the Division, most notably Brazil and Argentina. Over half the increase for the Division was attributable to Nalcomex (Mexico), a former affiliate, which became a wholly owned subsidiary in the fourth quarter 1994. Sales by the Pacific Division were up 25 percent, as double-digit gains were reported by all but one of the subsidiary companies in the Division.

The gross margin was 54.9 percent, down 0.5 percentage points from last year's rate of 55.4 percent. Gross margins in the United States decreased from a year ago primarily as a result of

a lower gross margin for the Absorbent Chemicals Group. Gross margins of International Divisions were slightly lower on a combined basis. Margin improvements in Latin America were offset by lower margins in the Pacific Division.

Operating expenses (selling, service, research, etc.) were up \$10.2 million or 10 percent over the first quarter of last year, primarily to support growth in Latin America, the Pacific, and the paper market. Part of the increase was attributable to higher rates used to translate expenses of most international subsidiaries, most notably those in Europe.

Interest and other income decreased \$1.4 million from a year ago primarily as a result of lower realized exchange and unrealized translation gains reported by the Company's subsidiary in Brazil. Interest expense was \$2.0 million lower than a year ago, which was also mainly attributable to the Company's Brazilian subsidiary. These changes were due to a monetary control program instituted by the Brazilian government in mid-1994.

Nalco's equity in earnings of Nalco/Exxon for the first quarter 1995 was \$5.6 million, an 8 percent improvement over the \$5.2 million for Nalco petroleum chemical operations a year earlier.

The effective tax rate was 36.5 percent for the first quarter 1995, compared to an effective tax rate of 36.6 percent for the same period last year, based on the reclassified results presented above.

Net earnings as a percent to sales was 12.0 percent for the first quarter 1995, compared to 11.9 percent for the first quarter 1994, based on the reclassified results presented above. Fully diluted earnings per share were 48 cents for the quarter, a 14 percent improvement over the 42 cents per share a year earlier.

Changes in Financial Condition

Cash and cash equivalents decreased \$0.9 million during the quarter as detailed in the Unaudited Condensed Consolidated Statement of Cash Flows.

Days sales outstanding were 58 days at March 31, 1995, down slightly from the 60 days at the end of 1994. Working capital at March 31, 1995 totaled \$81.1 million, down slightly from the \$87.8 million at last year end. The ratio of current assets to current liabilities was 1.3 to 1 at March 31, 1995 and December 31, 1994.

Domestic projects accounted for more than two-thirds of the \$27.1 million in capital investments during the first quarter. Major

expenditures were for additional PORTA-FEED units and automobiles for the sales force.

Charges against the provision for formation and consolidation expenses totaled \$8 million in the first quarter 1995 (See Note C).

Primarily as a result of the formation of the Nalco/Exxon joint venture, the Company adopted a worldwide consolidation plan for manufacturing and support operations during 1994. The joint venture was formed to take advantage of synergies in business management, technology, product offerings, and manufacturing operations. The production volume reduction caused by redundancies associated with the joint venture formation required the Company to downsize, close, and consolidate operations. The Company's South Chicago plant will be closed, and several European and Latin American manufacturing and support operations will also be closed or downsized. In addition, certain support functions will be regionalized on a pan-European basis in order to more efficiently serve customers. Certain redundant assets that were not contributed to the joint venture will be scrapped and written down to net realizable value, and assets associated with other programs will be written off. All of these activities are in process and should be largely completed by the end of 1995. As a result of these plans, the Company recorded a pretax provision for formation and consolidation expenses of \$68 million in 1994 (\$54 million after tax, or 70 cents per share on a fully diluted basis). Charges against the provision totaled \$25 million in 1994.

The Nalco/Exxon joint venture and the Company's consolidation plan are expected to result in an annualized pretax earnings improvement of at least \$8 million, beginning in 1995. This is expected to be realized through lower payroll expenses, depreciation, and other operating expenses resulting from the joint venture and the consolidation plan. The joint venture is expected to contribute increased earnings compared to what was previously generated by the Company's petroleum chemical operations, as a result of synergies achieved.

PART II. OTHER INFORMATION

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

The Annual Meeting of Stockholders of Nalco Chemical Company was held on April 20, 1995, for the purpose of electing one Class I director for a two-year term and three Class II directors for three-year terms; and approving the appointment of independent accountants. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there

was no solicitation in opposition to management s solicitation. All of management s nominees for directors as listed in the proxy statement were elected. There were no broker non-votes.

The vote electing the individual directors was as follows:

Director	Shares Voted For	Shares Withheld
Class I Director		
J. L. Ballasteros	68,348,947	570,187
Class II Directors		
H. Corless	68,339,132	580,002
H. M. Dean	68,400,452	518,682
E. J. Mooney	68,401,890	517,244

The appointment of Price Waterhouse LLP as independent accountants for the Company was approved by the following vote:

Shares Voted For	Shares Voted Against	Shares Abstaining
68,525,653	202,201	191,280

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are included herein:

- (11) Statement Re: Computation of Earnings Per Share
- (15) Awareness Letter of Independent Accountants
- (27) Financial Data Schedule

(b) The Registrant did not file any reports on Form 8-K during the three months ended March 31, 1995.

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.

NALCO CHEMICAL COMPANY
(Registrant)

Date: May 9, 1995

/s/ W. E. BUCHHOLZ
W. E. Buchholz - Vice President,
Chief Financial Officer

Date: May 9, 1995

/s/ S. J. GIOIMO
S. J. Gioimo - Secretary

EXHIBIT (11)

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

NALCO CHEMICAL COMPANY AND SUBSIDIARIES

(Amounts in thousands, except per share data)	Three Months Ended March 31	
	1995	1994
Primary		
Average shares outstanding	67,837	68,904
Net effect of dilutive stock options and shares contingently issuable - based on the treasury stock method using average market price	461	629
TOTALS	68,298	69,533
Net earnings	\$37,771	\$33,805
Preferred stock dividends, net of taxes	(2,816)	(2,764)
Net earnings to common shareholders	\$34,955	\$31,041
Per share amounts	\$.51	\$.45

EXHIBIT (11)

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

NALCO CHEMICAL COMPANY AND SUBSIDIARIES

Three Months Ended

(Amounts in thousands,
except per share data)

March 31
1995 1994

Fully diluted

Average shares outstanding	67,837	68,904
Average dilutive effect of assumed conversion of ESOP Convertible Preferred shares	8,076	8,153
Additional shares assuming exercise of dilutive stock options and shares contingently issuable based on the treasury stock method using the quarter-end market price, if higher than average market price	461	629
TOTALS	76,374	77,686
Net earnings	\$37,771	\$33,805
Additional ESOP contribution resulting from assumed conversion, net of taxes	(1,206)	(1,291)
Tax adjustment on assumed common dividends	(205)	(179)
Net earnings to common shareholders	\$36,360	\$32,335
Per share amounts	\$.48	\$.42

EXHIBIT (15)

AWARENESS LETTER OF INDEPENDENT ACCOUNTANTS

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Sirs:

We are aware that Nalco Chemical Company has included our report dated April 20, 1995 (issued pursuant to the provisions of Statement on Auditing Standards No. 71) in the Prospectuses constituting part of its Registration Statements on Form S-3 (Nos. 33-57363, 33-53111, 33-9934, and 2-97721) and Form S-8 (Nos. 33-54377, 33-38033, 33-38032, 33-29149, 2-97721, 2-97131 and 2-82642). We are also aware of our responsibilities under the Securities Act of 1933.

Yours very truly,

Price Waterhouse LLP

By: Robert R. Ross
Engagement Partner

May 9, 1995
Chicago, Illinois

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