

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
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### FILER

#### FERRO CORP

CIK: **35214** | IRS No.: **340217820** | State of Incorp.: **OH** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-00584** | Film No.: **94527857**  
SIC: **2800** Chemicals & allied products

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1000 LAKESIDE AVE  
CLEVELAND OH 44144-1183

Business Address  
1000 LAKESIDE AVE  
CLEVELAND OH 44114-1183  
2166418580

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C.

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

For the Quarter Ended March 31, 1994      Commission File Number 1-584

FERRO CORPORATION

An Ohio Corporation

IRS Number 34-0217820

1000 LAKESIDE AVENUE  
CLEVELAND, OHIO 44114-1183

216/641-8580

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  
-----      -----

At April 30, 1994, there were 28,893,761 shares of Ferro common stock, par value \$1.00 outstanding.

PART I      FINANCIAL INFORMATION

Item 1      Financial Statements

The consolidated Balance Sheets as of March 31, 1994 (unaudited) and December 31, 1993, and the Consolidated Statements of Income and Consolidated Statements of Cash Flows for the three months ended March 31, 1994 and 1993 (unaudited) of Ferro Corporation and Subsidiaries are set forth in Exhibit 20 hereof which is incorporated by reference herein.

Those financial statements, which are subject to year-end audit adjustments, should be read in conjunction with financial statements and notes thereto included in the Company's annual report for the fiscal year ended December 31, 1993.

Cash dividends were paid at the rate of \$0.135 per common share in the first quarter of 1994 and \$0.12 per common share in the first quarter of 1993. Cash dividends on preferred shares were paid at the rate of \$0.81 per preferred share in the first quarter of 1994 and 1993.

Net sales and net income for the three months ended March 31, 1994 were \$283,324,000 and \$11,324,000 (\$0.35 primary earnings per common share) as compared with net sales and net income before the impact of required changes in accounting of \$257,036,000 and \$13,122,000 (\$0.42 primary earnings per common share) for the corresponding period in 1993. Including the impact of the required changes in accounting, the net loss for the quarter ended March 31, 1993 was (\$7,428,000) or \$(0.28) primary earnings per common share. The foregoing figures are unaudited, but in the opinion of Management of the Company, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation thereof have been made.

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

NET SALES. First quarter 1994 sales of \$283.3 million were 10.2 percent greater than the \$257.0 million of the first quarter 1993.

Sales, including revenues associated with the major 1993 acquisitions of the North American and European powder coatings business from ICI (Imperial Chemical Industries) and the Italian ceramic glaze and color business from Bayer, S.p.A., increased in all businesses and all geographic areas except Latin America. Sales for Coatings, Colors and Ceramics, the beneficiary of the 1993 acquisitions, increased 15.7 percent, while Plastics sales increased 2.2 percent and Chemicals sales increased 4.6 percent.

The variety of products sold by the Company makes it difficult to determine with certainty the increases or decreases in sales resulting from changes in physical volume of products sold and selling prices. However, Management's best estimate is that the 10.2 percent increase in sales is comprised of: volume and acquisitions, 14.2 percent; exchange, (2.7) percent; price/mix, (1.2) percent; and divestitures, (0.1) percent.

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COST OF SALES. Gross profit as a percent of sales decreased from 26.7 percent to 25.0 percent, primarily due to product mix changes, equipment cleanup and

process start-up costs in a domestic chemical facility and slower than anticipated consolidation of the acquired domestic powder coatings business.

SELLING, ADMINISTRATIVE AND GENERAL EXPENSES. Such expenses increased 12.0 percent in dollar terms, largely due to costs associated with the 1993 acquisitions (including amortization of goodwill) and increases of research and development expenditures.

INTEREST EXPENSE. Interest expense increased from \$2.3 million to \$2.9 million, primarily because of the additional interest expense on the \$25 million, 7 5/8 debentures issued in May, 1993.

NET FOREIGN CURRENCY GAIN OR LOSS. Net foreign currency was a \$0.3 loss for the quarter, compared with a \$0.7 gain during the corresponding 1993 quarter, reflecting the relative weakness of the U.S. dollar over the prior year period. This situation is largely the result of compliance with established accounting rules for marking to market certain forward exchange contracts and currency options utilized to hedge the Company's exposure to foreign currency fluctuations.

OTHER INCOME/EXPENSE. Net other expense increased by \$1.5 million and is comprised of numerous income and expense items.

INCOME TAXES. Income taxes declined \$1.5 million, reflecting the lower level of income and reduction of the effective rate from 39.1 percent to 37.8 percent due to continuing effective worldwide tax planning.

GEOGRAPHIC DISCUSSION. European sales increased for each of the core businesses except plastics, which continued to be hardest hit by the European economic conditions. European earnings however, were relatively flat, as price pressures continued to impact margins. In the United States and Canada, sales increased, largely because of the incremental powder coatings sales acquired in 1993 and despite a volume decline in chemicals. Earnings in the United States and Canada declined, the most significant items in this decline being the loss of volume in chemicals and the items discussed in COST OF SALES above. Latin American sales and earnings declined from a very strong first quarter 1993 primarily because of volume declines and product mix changes in the traditional businesses.

#### Liquidity and Capital Resources

WORKING CAPITAL. Working capital was \$9.2 million greater at March 31, 1994 than at year-end 1993, largely due to the increase in receivables associated with higher level of sales, much of which is related to the 1993 acquisitions.

CASH FLOW. Net cash provided from operating activities for the three month period ended March 31, 1994 was \$18.8 million.

FINANCING REQUIREMENTS AND RESOURCES. The long-term debt to equity ratio was 21.4 percent at March 31, 1994, excluding the loan guarantee of the Employee

Stock Ownership Plan adopted in April 1989. The Company expects to be able to meet the financial requirements of its existing businesses from existing cash and cash equivalents and future cash flow. The Company has available to it a \$150 million five-year revolving credit facility with four banks. There have been no borrowings drawn under this facility. The Company also may issue \$75.0 million of additional debt under the Shelf Registration filed with the Securities and Exchange Commission in August 1992. Additionally, the foreign subsidiaries have credit facilities available.

#### Other Significant Developments

Subsequent to completion of the quarter, the Company announced that it had signed agreements with Guangdong Foshan Ceramic Group Co. Ltd. to establish a joint venture company in Guangdong Province, People's Republic of China for the manufacture and marketing of ceramic frits, glazes, colors and grinding media. Ferro will hold a 60% ownership of the venture and it is expected that the new company, Foshan-Ferro Ceramic Materials Company, Ltd. will be on-stream in January, 1996.

During the month of April, the Company, in accordance with the authorized stock repurchase plan, acquired approximately 370,000 shares of Ferro common stock.

In March 1994, James B. Friederichsen joined the Company as Vice President, Chemicals, replacing Frank A. Carragher, who retired from the position of Senior Vice President, Chemicals and Polymers.

#### PART II OTHER INFORMATION

- Item 1 Legal Proceedings. No change.
- Item 2 Change in Securities. No change.
- Item 3 Default Upon Senior Securities. None.
- Item 4 Submission of Matters to a Vote of Security Holders.

At the Annual Meeting of Shareholders held on April 22, 1994, the shareholders:

- a. Re-elected five current Ferro directors -- Glenn R. Brown, William E. Butler, Paul B. Campbell, John C. Morley and Hector R. Ortino -- to the Board to serve until the 1997 annual meeting.

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<TABLE>

The results of the voting for directors are as follows:

<CAPTION>

For	Did Not Vote
---	-----

<S>	<C>	<C>
Brown	27,665,405	166,826
Butler	27,672,546	159,685
Campbell	27,662,938	169,293
Morley	27,673,985	158,246
Ortino	27,642,103	190,128

</TABLE>

The terms of office for Albert C. Bersticker, Paul S. Brentlinger, Werner F. Bush, A. James Freeman, Kevin O'Donnell, Adolf Posnick, Rex A. Sebastian and Dennis W. Sullivan continued after the meeting.

- b. Adopted a resolution to ratify the designation of KPMG Peat Marwick as independent auditors of Ferro's books and accounts.

Shareholders approved the designation of KPMG Peat Marwick by a vote of 26,510,994 shares for, 1,181,949 shares against and 139,287 shares that were present but did not vote on this issue.

- c. Approved a proposal to adopt an amendment of Article Fourth of the Company's Articles of Incorporation, along with any necessary conforming amendments, to increase the number of authorized shares of common stock to 150,000,000.

Shareholders approved the proposal to increase the number of authorized shares of common stock from 75,000,000 to 150,000,000 by a vote of 25,767,877 shares for, 1,887,174 shares against and 177,179 shares that were present but did not vote on this proposal.

Item 5 Other Information. None.

Item 6 Exhibits and Reports on Form 8-K.

The Company has not filed any reports on Form 8-K for the quarter ended March 31, 1994.

Exhibit 11 -- Statement regarding computation of earnings per share.

Exhibit 12 -- Ratio of Earnings to Fixed Charges.

Exhibit 20 -- The Consolidated Balance Sheets as of March 31, 1994 (unaudited) and December 31, 1993, and the Consolidated Statements of Income and Consolidated Statements of Cash Flows for the three months ended March 31, 1994 and 1993 (unaudited) of Ferro Corporation and subsidiaries.

## S I G N A T U R E S

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

FERRO CORPORATION  
(Registrant)

Date: May 11, 1994

-----  
H. R. Ortino  
Executive Vice President and  
Chief Financial-Administrative Officer

Date: May 11, 1994

-----  
G. H. Ritondaro  
Vice President, Finance

EXHIBIT 11

FERRO CORPORATION

Statement Regarding Computation of Earnings Per Share

<CAPTION>

	Three Months Ended March 31	
(Dollars in Thousands)	1994	1993
<S>	<C>	<C>
Primary:		
Weighted average shares and common stock equivalents	29,610,820	29,414,263
Net Income	\$ 11,324	\$ 13,122
Less Preferred Stock Dividend Net of Tax	(886)	(876)
Income Available to Common Shareholders	\$ 10,438	\$ 12,246
Primary Earnings Per Common Share	\$ 0.35	\$ 0.42 (A)
Fully Diluted:		
Weighted average shares and common stock equivalents from above	29,610,820	29,414,263
Adjustments (primarily assumed conversion of convertible preferred stock)	2,473,420	2,521,775
	32,084,240	31,936,038
Net Income	\$ 11,324	\$ 13,122
Additional ESOP Contribution, Net of Tax	(520)	(563)
Adjusted Net Income	\$ 10,804	\$ 12,559
Fully Diluted Earnings Per Common Share	\$ 0.34	\$ 0.39 (A)



<FN>

(A) Before cumulative effect of accounting changes. Both Primary Earnings and Fully Diluted Earnings are \$(0.28) after the cumulative effect of accounting changes.

</TABLE>

## EXHIBIT 12

## FERRO CORPORATION

## Ratio of Earnings to Fixed Charges

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&lt;TABLE&gt;

RATIO OF EARNINGS TO FIXED CHARGES  
PER REGULATION S-K 229.503 (ITEM 503)

&lt;CAPTION&gt;

	MARCH 1994	MARCH 1993	BEFORE ACCT CHG MARCH 1993
<S>	<C>	<C>	<C>
Earnings:			
Pre-Tax Income	18,220	21,534	21,534
Accounting Change	1. -	(37,764)	-
Add: Fixed Charges	3,878	3,331	3,331
Less: Interest Capitalization	(211)	(228)	(228)
	-----	-----	-----
Total Earnings (Loss)	21,887	(13,127)	24,637
	=====	=====	=====
Fixed Charges:			
Interest Expense	2,867	2,303	2,303
Interest Capitalization	211	228	228
Interest Portion of Rental Expense	800	800	800
	-----	-----	-----
Total Fixed Charges	3,878	3,331	3,331
	=====	=====	=====
Total Earnings (Loss)	21,887	(13,127)	24,637
Divided By:			
Total Fixed Charges	3,878	3,331	3,331
	-----	-----	-----
Ratio	5.64	(3.94)	7.40

&lt;FN&gt;

1. Pre-tax effect of FASB 106, accounting for retiree benefits.

Note: Preferred dividends are excluded. Amortization of debt expense and discounts and premiums were deemed immaterial to the above calculation. Interest portion of rental expense are conservative estimates based on actual amounts from prior years.

&lt;/TABLE&gt;

## EXHIBIT 20

## FERRO CORPORATION

Consolidated Balance Sheets  
As of March 31, 1994 (Unaudited) and December 31, 1993

Consolidated Statements of Income  
For the Three Months Ended  
March 31, 1994 and 1993 (Unaudited)

Consolidated Statements of Cash Flows  
For the Three Months Ended  
March 31, 1994 and 1993 (Unaudited)

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CONSOLIDATED STATEMENTS OF INCOME  
FERRO CORPORATION AND SUBSIDIARIES

<TABLE>  
<CAPTION>

(Dollars in Thousands)	Three Months Ended	
	(Unaudited) 1994	(Unaudited) 1993
<S>	<C>	<C>
Segment Sales		
Coatings, Colors, and Ceramics	\$165,801	\$143,243
Plastics	65,683	64,235
Chemicals	51,840	49,558
Total Net Sales	\$283,324	\$257,036
Cost of Sales	212,382	188,314
Selling, Administration and General Expenses	50,504	45,084
Operating Income	20,438	23,638
Interest Expense	2,867	2,303
Net Foreign Currency (Gain) Loss	344	(722)
Other (Income) Expense - Net	(993)	523
Income Before Taxes and Cumulative Effect of Change in Accounting Principles	18,220	21,534
Taxes on Income	6,896	8,412
Income Before Cumulative Effect of Change in Accounting Principles	11,324	13,122
Cumulative Effect of Changes in Accounting Principles for:		
Postretirement Benefits, Net of Tax	-	(23,603)
Income Taxes	-	3,053

Net Income	11,324	(7,428)
Dividend on Preferred Stock, Net of Tax	886	876
	-----	-----
Net Income Available to Common Shareholders	\$ 10,438	\$ (8,304)
Per Common Share Data:		
Before Cumulative Effect of Accounting Changes		
Primary Earnings	\$ 0.35	\$ 0.42
Fully Diluted Earnings	\$ 0.34	\$ 0.39
After Cumulative Effect of Accounting Changes		
Primary Earnings	\$ 0.35	\$ (0.28)
Fully Diluted Earnings	\$ 0.34	\$ (0.28)
Average Shares Outstanding	29,610,820	29,414,263
	=====	=====

</TABLE>

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CONSOLIDATED BALANCE SHEET  
FERRO CORPORATION AND SUBSIDIARIES  
MARCH 31, 1994 AND DECEMBER 31, 1993

<TABLE>  
<CAPTION>

	(Dollars in Thousands)	
	(Unaudited) 1994	(Audited) 1993
	-----	-----
ASSETS		
- - - - -		
<S>	<C>	<C>
Current Assets:		
Cash	\$ 25,378	\$ 25,116
Marketable Securities	42,759	38,335
Net Receivables	200,923	175,826
Inventories	127,289	128,736
Other Current Assets	39,740	43,240
	-----	-----
Total Current Assets	\$ 436,089	\$ 411,253
Investments in Affiliated Companies	9,830	10,096
Unamortized Excess of Cost Over Net Assets Acquired	52,956	53,988
Other Assets	36,358	34,736
Net Plant & Equipment	261,417	257,821
	-----	-----
	\$ 796,650	\$ 767,894
	=====	=====
LIABILITIES		
- - - - -		
Current Liabilities:		
Notes and Loans Payable	\$ 16,745	\$ 19,301
Accounts Payable, Trade	110,300	97,247
Income Taxes	6,832	5,957
Accrued Payrolls	15,516	15,917
Accrued Expenses and Other Current Liabilities	65,195	60,536
	-----	-----
Total Current Liabilities	\$ 214,588	\$ 198,958
Long-Term Debt	79,387	79,349
ESOP Loan Guarantee	42,027	44,076
Deferred Income Taxes	15,205	14,884
Postretirement Liabilities	40,671	40,096
Other Liabilities	33,105	31,734
Shareholders' Equity	371,667	358,797
	-----	-----
	\$ 796,650	\$ 767,894

</TABLE>

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CONSOLIDATED STATEMENT OF CASH FLOWS  
FERRO CORPORATION AND SUBSIDIARIES

<TABLE>  
<CAPTION>

	Three Months Ended March 31	
	(Unaudited) 1994	(Unaudited) 1993
	-----	-----
<S>	<C>	<C>
(Dollars in Thousands)		
-----		
Net Cash Provided from Operating Activities	\$18,782	\$14,703
Cash Flow from Investing Activities:		
Investment in Marketable Securities	(4,424)	(30,734)
Capital Expenditures for Plant and Equipment	(11,199)	(9,620)
Acquisition of Companies, net of cash acquired	0	(4,246)
Proceeds From Divestitures	3,156	496
Other Investing Activities	473	2,391
	-----	-----
Net Cash Used for Investing Activities	(11,994)	(41,713)
Cash Flow from Financing Activities:		
Net Borrowings Under Short-Term Lines	(2,556)	1,895
Cash Dividend Paid	(5,102)	(4,659)
Other Financing Activities	979	487
	-----	-----
Net Cash (Used for) Provided by Financing Activities	(6,679)	(2,277)
Effect of Exchange Rate Changes on Cash	153	(65)
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents	262	(29,352)
Cash and Cash Equivalents at Beginning of Period	25,116	60,812
	-----	-----
Cash and Cash Equivalents at End of Period	\$25,378	\$31,460
	=====	=====
Cash Paid During the Period for:		
Interest	\$716	\$831
Income Taxes	\$3,376	\$3,475
	=====	=====

</TABLE>