

# 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

#### **BETZ LABORATORIES INC**

CIK: **11884** | IRS No.: **231503731** | State of Incorp.: **PA** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-11558** | Film No.: **94528027**  
SIC: **2890** Miscellaneous chemical products

Mailing Address  
4636 SOMERTON ROAD  
TREVOSE PA 19053

Business Address  
4636 SOMERTON RD  
TREVOSE PA 19053  
2153553300

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

QUARTERLY REPORT UNDER SECTION 13

OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1994

Commission File Number: 0-2085

BETZ LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1503731

(State or other jurisdiction of  
incorporation or organization)

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

4636 Somerton Road, Trevose, PA

19053

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (215) 355-3300

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 report(s), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

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27,774,620 Common Shares outstanding as of May 9, 1994.

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BETZ LABORATORIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	1994	1993
	----	----
Net Sales	\$172,934	\$168,495
Operating Costs and Expenses:		
Cost of products sold	61,214	58,917
Selling, research and administrative expenses	81,757	79,583
	-----	-----
	142,971	138,500
OPERATING EARNINGS	29,963	29,995
Other Income (Expense):		
Investment and other income	959	1,246
Interest expense	(62)	(43)
	-----	-----
	897	1,203
	-----	-----
EARNINGS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	30,860	31,198
Income Taxes	12,344	12,011
	-----	-----
EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	18,516	19,187
Cumulative effect of accounting changes:		
Income taxes	-	3,600
Retiree health care, net of \$1,700 income taxes	-	(2,700)
Pension, net of \$780 income taxes	-	1,241
	-----	-----
NET EARNINGS	\$18,516	\$21,328

Primary earnings per Common Share:		
Before cumulative effect of		
accounting changes	\$ .61	\$ .62
Accounting changes	-	.07
	-----	-----
Primary earnings per Common Share	\$ .61	\$ .69
	=====	=====
Fully diluted earnings per Common Share:		
Before cumulative effect of		
accounting changes	\$ .58	\$ .59
Accounting changes	-	.07
	-----	-----
Fully diluted earnings per Common Share	\$ .58	\$ .66
	=====	=====
Cash dividends declared per Common Share	\$ .35	\$ .34
	=====	=====
Average number of Common Shares:		
Primary	28,401	28,893
	=====	=====
Fully diluted	31,189	31,624
	=====	=====

See notes to consolidated financial statements.

BETZ LABORATORIES, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets (In thousands)

ASSETS	March 31, 1994	December 31, 1993
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 51,137	\$ 43,921
Trade accounts receivable,		
less allowances:		
1994--\$2,783; 1993--\$2,698	112,205	102,882
Inventories:		
Finished products and goods		
purchased for resale	17,091	17,155
Raw materials	21,056	20,191
	-----	-----
	38,147	37,346

Prepaid expenses and other	23,288	24,486
	-----	-----
TOTAL CURRENT ASSETS	224,777	208,635
PROPERTY, PLANT AND EQUIPMENT--		
at cost		
Buildings	160,234	155,781
Machinery and equipment	362,956	360,426
Allowance for depreciation (deduction)	(264,836)	(253,881)
	-----	-----
	258,354	262,326
Land	21,212	21,146
Construction in progress	21,990	17,270
	-----	-----
	301,556	300,742
OTHER ASSETS		
Investments and other	7,536	7,223
Intangibles -- at cost, less amortization:		
1994 -- \$2,588; 1993 -- \$2,513	4,454	4,529
	-----	-----
	11,990	11,752
	-----	-----
	\$538,323	\$521,129
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
	March 31, 1994	December 31, 1993
	-----	-----
CURRENT LIABILITIES		
Trade accounts payable	\$30,893	\$32,554
Payroll and related taxes	16,434	17,727
Accrued expenses	29,338	24,577
Income taxes	17,317	6,838
Dividends payable	0	9,845
Current portion of ESOP debt	500	500
	-----	-----
TOTAL CURRENT LIABILITIES	94,482	92,041
ESOP DEBT--less portion classified as current	97,500	97,500
DEFERRED CREDITS		
Income taxes	22,004	21,998
Other deferred credits	10,084	10,271
	-----	-----
	32,088	32,269

SHAREHOLDERS' EQUITY

Preferred Shares --

Authorized - 1,000,000 shares,  
\$.10 par value, voting  
Series A ESOP Convertible,  
8% Cumulative, stated  
at aggregate liquidation  
preference; Issued:

1994 -- 494,971 shares;		
1993 -- 496,005 shares	98,994	99,201
Guarantee of related ESOP debt	(93,783)	(94,101)
	-----	-----
	5,211	5,100

Common Shareholders' Equity

Common Shares --

Authorized - 90,000,000  
shares, \$.10 par value;

Issued (including treasury  
shares):

1994 -- 33,654,715 shares;		
1993 -- 33,654,715 shares	3,365	3,365
Capital in excess of par value of shares	78,882	78,667
Retained earnings	411,260	394,726
Cost of Common Shares in treasury:		
1994 -- 5,578,849 shares;		
1993 -- 5,527,310 shares	(174,032)	(170,442)
Unearned compensation	(7,393)	(7,773)
Foreign currency translation adjustments	(3,040)	(4,324)
	-----	-----

COMMON SHAREHOLDERS' EQUITY	309,042	294,219
	-----	-----

TOTAL SHAREHOLDERS' EQUITY	314,253	299,319
	-----	-----

	\$538,323	\$521,129
	=====	=====

See notes to consolidated financial statements.

BETZ LABORATORIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Three Months Ended

March 31,

1994	1993
----	----

OPERATING ACTIVITIES		
Net earnings	\$18,516	\$21,328
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	11,241	10,833
Compensation and employee benefit plans	1,147	1,280
Cumulative effect of accounting changes	-	(2,141)
Changes in operating assets and liabilities:		
Accounts receivable	(9,323)	1,746
Inventories	(633)	(1,000)
Prepaid expenses and other	1,199	(1,954)
Accounts payable and accrued expenses	7,884	(5,694)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	30,031	24,398
INVESTING ACTIVITIES		
Expenditures for property, plant and equipment, net	(11,360)	(15,489)
Proceeds from sales of investments	98	1,602
Other, net	(172)	67
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(11,434)	(13,820)
FINANCING ACTIVITIES		
Dividends paid	(11,828)	(11,688)
Proceeds from issuance of common stock, including treasury shares	491	1,477
Retirement of ESOP preferred stock	(295)	(57)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(11,632)	(10,268)
Effect of exchange rate changes on cash	251	(286)
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	7,216	24
Cash and Cash Equivalents at Beginning of Year	43,921	46,363
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$51,137	\$46,387
	=====	=====

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary for a fair presentation of consolidated financial position, consolidated results of operations and consolidated cash flows in conformity with generally accepted accounting principles. The foregoing consolidated financial statements do include all adjustments, consisting only of normal recurring accruals which, in the opinion of management, are necessary for a fair statement of the results of the interim period.

The 1993 cumulative effect of accounting changes has been restated from previously reported amounts due to a change in the method of calculating the value of the assets of the Company's pension plan for purposes of determining annual pension costs under Financial Accounting Standard No. 87 adopted in the fourth quarter of 1993, effective January 1, 1993. The cumulative effect on years prior to December 31, 1992 is \$1,241,000, net of taxes of \$780,000 (\$.04 per Common Share on a primary and fully diluted basis), which was a one-time, noncash increase in net earnings for the first quarter of 1993.

### Note 2 - Common Shares Reserved for Stock Plans

At March 31, 1994, 2,558,403 and 647,255 Common Shares were reserved for possible issuance pursuant to the exercise of stock options and grants under the Company's Stock Option and Incentive Plans, respectively. Further, 2,758,000 Common Shares were reserved and kept available for possible conversion of the Series A ESOP Convertible preferred stock.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS

First quarter 1994 net sales increased \$4.4 million from \$168.5 million to \$172.9 million. This 3 percent increase was composed of a 4 percent increase in volume-mix and a 1 percent decline resulting from the changes in the value of foreign currencies relative to the U.S. dollar. Net earnings before cumulative effect of accounting changes declined \$0.7 million, or 3 percent, from \$19.2 million to \$18.5 million. Primary and fully diluted earnings per Common Share before cumulative effect of accounting changes decreased 2 percent from \$.62 to \$.61 and from \$.59 to \$.58, respectively. Net earnings after cumulative effect of accounting changes were down 13 percent from \$21.3 million to \$18.5 million. Primary and fully diluted earnings per Common Share after cumulative effect of accounting changes declined 12 percent from the first quarter 1993 from \$.69 to \$.61



and from \$.66 to \$.58, respectively.

The results of operations for the quarter ended March 31, 1993 have been restated due to a change in the method of determining annual pension expense adopted in the fourth quarter of 1993, effective January 1, 1993. The cumulative effect of this change is \$1.2 million (\$.04 per Common Share on a primary and fully diluted basis), which is a one-time, noncash increase in net earnings for the first quarter of 1993. The prior year's cumulative effect of accounting changes also includes a one-time, noncash increase in net earnings of \$0.9 million (\$.03 per Common Share on a primary and fully diluted basis) for the adoption of Financial Accounting Standards Nos. 106 (retiree health care) and 109 (accounting for income taxes).

First quarter 1994 domestic sales were 3 percent higher than the first three months of 1993 with all major operating units posting sales gains. Within the Betz Water Management Group, the Pulp and Paper Division and Betz Entec, Inc. reported the strongest sales gains. On the process side, Betz MetChem, which offers a complete line of process chemicals for the metals and plastic industries, also reported a strong sales gain in the first quarter. Sales of NORINSE II (registered trademark) technology to the coil industry and ADHERE (registered trademark) programs to the plastic industries are meeting with considerable success. Betz Process Chemicals, Inc. experienced higher sales gains of its ALKAT-XL (registered trademark) treatment programs, which increase the efficiency of alkylation units in refineries, and its SPEC-AID (registered trademark) line of finished product additives, which help customers improve operations and bottom line profitability by controlling product instability.

On a combined basis, 1994 first quarter foreign sales were also up 3 percent in U.S. dollars and 8 percent in local currencies compared to the same quarter last year. Betz Inc., the Company's Canadian subsidiary, continued its sales growth with double-digit sales increases, in local currencies, of its industrial water treatment and paper process treatment programs.

Despite the lingering recession in Europe, the Company's European subsidiaries in England, France, Germany and Scandinavia reported solid sales gains. Foreign operations in Australia and Korea also reported sales gains above the Company's consolidated average.

The table below sets forth as a percent of sales cost of products sold, selling, research and administrative expenses and operating earnings for the respective periods.

	Three Months Ended	
	March 31,	
	1994	1993
	----	----
Cost of products sold	35.4%	35.0%
Selling, research and administrative expenses	47.3%	47.2%

Cost of products sold as a percentage of sales increased slightly due to modest manufacturing cost increases with no corresponding increase in selling prices. Selling, research and administrative expenses remained essentially flat as a percentage of sales due to continuing cost controls. The net effect of the above resulted in a 0.5% decrease in the Company's operating profit margin.

During the first quarter of 1994, the Company continued to implement its previously announced restructuring program. This program, designed to lower operating costs on a prospective basis and reorganize the Company's marketing efforts on a global basis, is in the early stages and there have been no significant changes in the estimated costs or cash flows necessary to complete it.

The financial condition of the Company remains strong. Cash and cash equivalents were \$51.1 million at March 31, 1994 and current assets were 2.4 times current liabilities. During the first quarter of 1994, expenditures for property, plant and equipment were \$11.4 million. The Company anticipates that capital expenditures for the year 1994 will be approximately \$63 million and will include an expansion of the Company's manufacturing facilities in Washougal, Washington and Orange, Texas. During the quarter, the Company completed construction of a new production plant in Korea. This new facility, for the first time, will provide Betz Korea, Ltd. with the capability of supplying customers with products manufactured by Betz in Korea. During the period March 28, 1994, through April 7, 1994, the Company continued its program of treasury stock purchases by repurchasing 400,000 shares of common stock, increasing the cost of Common Shares in treasury by approximately \$20 million. As of March 31, 1994, \$4.3 million of treasury stock repurchases had been accrued and are included in Cost of Common Shares in treasury and Accrued expenses.

## PART II OTHER INFORMATION

### Item 1 - Legal Proceedings

There are no material pending legal proceedings other than ordinary routine litigation incidental to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

The Company is a "Potentially Responsible Party" under the Comprehensive Environmental Response, Compensation and Liability Act to thirteen (13) waste disposal sites. See the discussion under Item 3, "Pending Legal Proceedings," of the Company's Annual Report on Form 10-K for fiscal year ended December 31, 1993. There have been no material developments during the quarter for which this report is filed in any of the pending proceedings previously reported.

#### Item 4 - Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Shareholders was held on April 14, 1994. Proxies were solicited by the Board of Directors of the Company ("Board") pursuant to Regulation 14 of the Securities Exchange Act of 1934. There was no solicitation of proxies in opposition to the Board's nominees for Director. All such nominees were elected. The firm of Ernst & Young was elected as the Company's independent auditors for the year 1994.

The number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes, were as follows:

##### Election of Directors

Nominee	For	Against	Abstained	Not Voted
John F. McCaughan	22,355,621	779,171	-	5,731,521
Theodore B. Palmer, 3rd	22,328,839	805,953	-	5,731,521
John R. Quarles	22,337,680	797,112	-	5,731,521
Robert L. Yohe	22,354,652	780,140	-	5,731,521

##### Election of Independent Auditors

	For	Against	Abstained	Not Voted
Ernst & Young	22,933,863	127,260	73,669	5,731,521

#### Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibit 11: Statement Re: Computation of Per Share Earnings.

(b) No reports on Form 8-K have been filed during the quarter for which this Form 10-Q is filed.

#### 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.

BETZ LABORATORIES, INC.  
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(Registrant)

Date: May 13, 1994

By: s/R. Dale Voncanon  
-----  
R. Dale Voncanon  
Vice President - Finance

Date: May 13, 1994

By: s/William C. Brafford  
-----  
William C. Brafford  
Vice President,  
Secretary and General Counsel

## EXHIBIT 11 - STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

(In thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	1994	1993
Primary Earnings per Common Share	-----	-----
Earnings before cumulative effect of accounting changes	\$18,516	\$19,187
Effect of preferred stock dividends	(1,140)	(1,253)
	-----	-----
	17,376	17,934
Cumulative effect of accounting changes	-	2,141
	-----	-----
Net earnings available to common shareholders	\$17,376	\$20,075
	=====	=====
Average Common Shares outstanding	28,142	28,553
Common stock equivalents	259	340
	-----	-----
Average number of Common Shares-primary	28,401	28,893
	=====	=====
Primary earnings per Common Share:		
Before cumulative effect of accounting changes	\$0.61	\$0.62
Cumulative effect of accounting changes	-	0.07
	-----	-----
Primary earnings per Common Share	\$0.61	\$0.69
	=====	=====
Fully Diluted Earnings per Common Share		
Earnings before cumulative effect of accounting changes	\$18,516	\$19,187
Effect of ESOP charge to operations assuming conversion of Series A ESOP Convertible Preferred Shares	(528)	(618)
	-----	-----
	17,988	18,569
Cumulative effect of accounting changes	-	2,141
	-----	-----
Net earnings available to common shareholders	\$17,988	\$20,710
	=====	=====
Average Common Shares outstanding	28,142	28,553
Common stock equivalents	269	340
Assumed conversion of Series A ESOP Convertible Preferred Shares	2,778	2,731

Average number of Common Shares-fully diluted	----- 31,189 =====	----- 31,624 =====
Fully diluted earnings per Common Share:		
Before cumulative effect of accounting changes	\$0.58	\$0.59
Cumulative effect of accounting changes	-	0.07
Fully diluted earnings per Common Share	----- \$0.58 =====	----- \$0.66 =====

Common stock equivalents reflect the assumed exercise of dilutive employees' stock options using the treasury stock method.

See notes to consolidated financial statements.