

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**
SEC Accession No. **0000030067-94-000005**

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FILER

DRAVO CORP

CIK: **30067** | IRS No.: **250447860** | State of Incorporation: **PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-05642** | Film No.: **94527863**
SIC: **1400** Mining & quarrying of nonmetallic minerals (no fuels)

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d) of
the Securities Exchange Act of 1934

For Quarter Ended: March 31, 1994

Commission File Number: 1-5642

DRAVO CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

25-0447860
(I.R.S. employer
identification no.)

One Oliver Plaza, Pittsburgh, Pennsylvania
(Address of principal executive offices)

15222
(Zip Code)

Registrant's telephone number, including area code: (412) 566-3000

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

Yes No

The number of shares outstanding of each of the registrant's classes of common stock as of April 30, 1994:

Title of Class

Shares Outstanding

DRAVO CORPORATION AND SUBSIDIARIES

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DRAVO CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(\$ in 000's)

<TABLE>
<CAPTION>

	March 31, 1994 (unaudited) <C>	December 31, 1993 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,268	\$ 808
Accounts receivable, net	40,504	44,225
Notes receivable, net	3,207	3,318
Inventories	55,695	57,536
Other current assets	5,737	2,417
Total current assets	106,411	108,304
Advances to and equity in joint ventures	4,611	4,348
Notes receivable	6,489	6,870
Other assets	20,167	17,729
Deferred tax asset	24,853	24,853
Property, plant and equipment	314,193	311,822
Less: accumulated depreciation and amortization	203,422	201,854
Net property, plant and equipment	110,771	109,968
Total assets	\$273,302	\$272,072

</TABLE>

See accompanying notes to consolidated financial statements.

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DRAVO CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(\$ in 000's)

<TABLE>

<CAPTION>

	March 31, 1994 (unaudited) <C>	December 31, 1993 <C>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term notes	\$ 4,486	\$ 4,488
Accounts payable - trade	28,770	28,622
Income taxes	--	23
Accrued insurance	4,569	3,049
Accrued retirement contribution	2,659	2,101
Net liabilities of discontinued operations	1,354	2,006
Accrued loss on leases - discontinued operations	2,399	2,448
Other current liabilities	6,853	6,113
Total current liabilities	51,090	48,850
Long-term notes	92,006	88,520

Other liabilities	3,092	3,033
Net liabilities of discontinued operations	13,493	14,276
Accrued loss on leases - discontinued operations	7,328	7,854
Redeemable preference stock:		
Par value \$1, issued 200,000 shares:		
Series D, \$12.35 cumulative, convertible, exchangeable (entitled in liquidation to \$20.0 million)	20,000	20,000
Shareholders' equity:		
Preference stock, par value \$1, authorized 1,878,870: Series B, \$2.475 cumulative, convertible; issued 31,386 and 32,386 shares (entitled in liquidation to \$1.7 million and \$1.8 million);	31	32
Series D, reported above		
Common stock, par value \$1, authorized 35,000,000 shares; issued 14,974,040 and 14,967,824	14,974	14,968
Other capital	63,278	63,260
Retained earnings	9,850	13,119
Treasury stock at cost: Common shares - 119,221	(1,840)	(1,840)
Total shareholders' equity	86,293	89,539
Total liabilities and shareholders' equity	\$273,302	\$272,072

</TABLE>

See accompanying notes to consolidated financial statements.

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DRAVO CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(unaudited, \$ in 000's, except per share data)

<TABLE>

<CAPTION>

	Quarters ended March 31,	
	1994	1993
<S>	<C>	<C>
Revenue	\$ 57,681	\$ 61,811
Cost of revenue	50,107	51,514
Gross profit	7,574	10,297

Selling, general and administrative expenses	7,479	7,943
Earnings from operations	95	2,354
Other income (expense):		
Equity in earnings of joint ventures	337	48
Other income	406	50
Interest income	132	307
Interest expense	(2,241)	(2,339)
Net other expense	(1,366)	(1,934)
Earnings (loss) before taxes	(1,271)	420
Provision for income taxes	--	29
Earnings (loss) before cumulative effect of accounting change	(1,271)	391
Cumulative effect of accounting change, net of tax	(1,361)	--
Net earnings (loss)	(2,632)	391
Preference dividends	637	639
Net loss available for common stock	\$ (3,269)	\$ (248)
Loss per share:		
Operations	\$ (0.13)	\$ (0.02)
Cumulative effect of accounting change	(0.09)	--
Total	\$ (0.22)	\$ (0.02)
Weighted average shares outstanding	14,852	14,826

</TABLE>

See accompanying notes to consolidated financial statements.

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DRAVO CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited, \$ in 000's)

<TABLE>
<CAPTION>

Quarters ended March 31,

<S>	1994 <C>	1993 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	\$ (2,632)	\$ 391
Adjustments to reconcile net earnings (loss) to net cash provided (used) by continuing operations activities:		
Depreciation and amortization	4,417	4,489
Cumulative effect of accounting change	1,361	--
Gain on sale of assets	(406)	(50)
Equity in joint ventures	(263)	(500)
Changes in assets and liabilities:		
Decrease in accounts receivable	3,721	1,502
Decrease in notes receivable	92	37
Decrease in inventories	1,841	2,118
Increase in other current assets	(3,320)	(1,426)
Increase (decrease) in accounts payable and accrued expenses	2,943	(5,235)
Increase in other assets	(2,438)	(1,572)
Increase (decrease) in other liabilities	(1,302)	98
Net cash provided (used) by continuing operations activities	4,014	(148)
Decrease in net liabilities of discontinued operations	(2,010)	(2,704)
Proceeds from repayment of notes receivable from sale of discontinued operations	400	792
Net cash used by discontinued operations activities	(1,610)	(1,912)
Net cash provided (used) by operating activities	2,404	(2,060)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	652	110
Additions to property, plant and equipment	(5,466)	(1,192)
Other, net	1	--
Net cash used by investing activities	\$ (4,813)	\$ (1,082)

</TABLE>

See accompanying notes to consolidated financial statements.

DRAVO CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited, \$ in 000's)

<TABLE>

<CAPTION>

	Quarters ended March 31,	
	1994	1993
<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowing under revolving credit agreements	\$ 4,000	\$ 5,600
Principal payments under long-term notes	(517)	(499)
Proceeds from long-term notes	--	(84)
Proceeds from issuance of common stock	23	--
Dividends on preference stock	(637)	(639)
Net cash provided by financing activities	2,869	4,378
Net increase in cash and cash equivalents	460	1,236
Cash and cash equivalents at beginning of period	808	970
Cash and cash equivalents at end of period	\$ 1,268	\$ 2,206
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest (net of amount capitalized)	\$ 2,237	\$ 2,264
Income tax	77	228

</TABLE>

See accompanying notes to consolidated financial statements.

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DRAVO CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Dravo Corporation and its majority-owned subsidiaries (the company). Significant intercompany balances and transactions have been eliminated in the consolidation process.

These unaudited consolidated financial statements include all adjustments, consisting only of normal, recurring accruals, which management considers necessary for a fair presentation of the company's consolidated financial position, results of operations, and cash flows for the interim periods presented. Certain reclassifications of previously reported balances have been made to conform to the current period's presentation.

(2) Inventories

Inventories are classified as follows:

<TABLE>

<CAPTION>

(\$ in 000's)

	March 31, 1994	December 31, 1993
<S>	<C>	<C>
Finished goods	\$38,574	\$40,660
Work in process	2,785	3,092
Materials and supplies	14,336	13,784
Net inventories	\$55,695	\$57,536

</TABLE>

Inventories are valued at average production cost or market, whichever is lower. The cost of products produced includes raw materials, direct labor, and operating overhead.

DRAVO CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(3) Contingent Liabilities

The company has been notified by the Federal Environmental Protection Agency (EPA) that the EPA believes the company is a potentially responsible party (PRP) for the clean-up of soil and groundwater contamination at three subsites in Hastings, Nebraska, one of the EPA's priority sites for taking remedial action under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

At one of these subsites, a municipal landfill, the company, after a limited investigation, has determined that it believes it disposed of no hazardous substances at the particular site and has so informed the EPA. On December 31, 1991, the EPA sent a formal demand to the company as well as other PRPs at this subsite demanding that they reimburse the EPA for already incurred response costs in the amount of \$1.2 million, and requesting that the PRPs submit a good faith proposal to perform soil and groundwater remediation at this subsite. The company has rejected the EPA's demand and decided not to submit the offer requested by the EPA. No PRP at this subsite has agreed to pay the EPA's response costs. As a result, statutory interest is being added to the EPA's response costs. Other PRPs, including the local municipality, have agreed to perform the remedial investigation and to design soil and groundwater remediation remedies at this subsite, but no party has agreed to conduct the remediation.

At the second subsite, the company, again after a limited investigation, concluded that release of contaminants from this subsite is not sufficient to warrant the taking of remedial action. In January, 1994 the EPA sent

a specific notice to the company that the EPA considered it and three other parties PRPs at this subsite. The letter invited the company and the other PRPs to make an offer to conduct a remedial investigation and feasibility study (RI/FS) of this subsite and stated that the EPA was in the process of preparing a workplan for the RI/FS.

With respect to the third subsite, the company, along with one other PRP, has been served with administrative orders directing it to undertake soil remediation and interim groundwater remediation at that subsite. The company is currently complying with these orders while reserving its right to seek reimbursement from the United States for its costs if it is determined it is not liable for response costs or if it is required to incur costs because of arbitrary, capricious or unreasonable requirements imposed by the EPA. The issuance of the order concerning interim groundwater remediation followed many months of unresolved negotiations with the EPA, the other PRP and the company's insurers with respect to the EPA's demands that the company and the other PRP either finance or voluntarily undertake the interim groundwater remediation as well as their liability to complete the soil remediation and to pay for past response costs. The EPA has taken no legal action with respect to its demand that the company and the other PRP pay its past response costs. A third PRP has been notified by the EPA that the EPA regards it as potentially liable

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DRAVO CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(3) Contingent Liabilities (continued)

under Section 107(a) of CERCLA for costs the EPA has incurred or will incur in responding to the release and threat of release at this subsite. A total of five parties have been named by the EPA as PRPs at this subsite.

A contribution claim related to this subsite against two of the PRPs was dismissed by the Nebraska District Court after they entered a de minimis settlement with the EPA providing for, among other things, contribution protection in return for access to their property. The Eighth Circuit Court of Appeals recently affirmed the dismissal. The de minimis settlement agreement does provide for the loss of contribution protection if evidence is developed that these two PRPs contributed to contamination at this subsite. The company has decided not to pursue this matter further because it has concluded it may be able to utilize "reopener" provisions in the de minimis settlement agreement to obtain withdrawal of contribution protection from those other PRPs if the company is able to provide the EPA with information which demonstrates that these PRPs were responsible for disposing of hazardous substances at the subsite.

The company may proceed against other parties at the subsite who have not been named by the EPA as PRPs or who have not contributed to the company's cost in complying with the EPA's administrative orders.

The company, along with other PRPs from various other subsites, has recommended that the EPA adopt area-wide institutional controls as the permanent remedy at the site. No formal response to this proposal has been received by the PRPs.

The company notified its primary and excess general liability insurance carriers of the claims by the EPA at the first and third subsites. Although one primary carrier agreed to pay for a part of the company's defense, it has not done so and has refused to pay for expenses the company has already incurred. The company's other primary carrier has declined coverage altogether. On August 10, 1992 the company filed suit in the Alabama District Court against its primary liability insurance carriers seeking a declaratory judgment that the company is entitled to a defense and indemnity under its contracts of insurance (including certain excess policies provided by one of the primary carriers). This complaint is limited to the EPA's claims at the third subsite. The suit has been amended to include as a defendant the excess liability carrier of the company's predecessor at the site. An investigation of the coverage provided by the primary carrier of the company's predecessor is also underway. An award of punitive damages is being sought against two of these carriers for their bad faith in failing to investigate the company's claim and/or denying the company's claim. The case is proceeding in accordance with a case management order issued by the District Court Magistrate assigned to handle pretrial matters. The company has notified its primary and excess general liability carrier, as well as the excess carrier of its predecessor, of the receipt of its notice of potential liability at the second subsite.

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DRAVO CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(3) Contingent Liabilities (continued)

Estimated total cleanup costs, including capital outlays and future maintenance costs for soil and groundwater remediation of approximately \$17 million, are based on independent engineering studies. The company has assumed that it will participate in 33 percent of the costs.

Included in the discontinued operations provision is the company's estimate of its share of the likely cost of soil and groundwater remediation at these three subsites. The company's estimated share of the costs is based on its assessment of the total cleanup costs, its potential exposure, and the viability of other named PRPs.

On May 27, 1993 the company was also notified by the EPA that the company

might be liable for costs incurred by the United States in responding to a release or threatened release of hazardous substances at a non-operating research facility in Golden, Colorado. The notice, which was received without any advance indication that the EPA regarded the company as a potentially liable party, gave the company seven days to express its intent to conduct or participate in actions at the site.

The company, whose engineering and construction division dealt with the research facility on specific projects from 1968 to 1980, is one of about ninety non-governmental former clients of the research facility to receive such notices. The United States has indicated it also regards a state educational institution associated with the research facility and various federal agencies as potentially liable for the clean-up.

On June 8, 1993 the company responded to the EPA's notice of potential liability by stating that it does not believe it is a responsible party at the site. The company has also declined to participate in remedial actions at the site. In December, 1993, the company received a Waste-In list for this subsite and Notice of Planned De Minimis Settlement Offer for Eligible Parties Associated with the Subsite. On the basis of the alleged volumetric contribution of waste attributed to the company by the EPA, the company believes it will be offered a de minimis settlement at this subsite.

There are no reliable estimates of the cost of remediation at this site.

The company has notified its insurance carriers of its receipt of the EPA's notice of potential liability. The company's primary carriers have notified the company of their intent to investigate the company's claim, requested additional information and reserved all of their rights and defenses.

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DRAVO CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(3) Contingent Liabilities (continued)

In 1990, the company filed an action now pending in Luzerne County, Pennsylvania alleging breach of contract and unjust enrichment arising out of the termination of a Turnkey Construction Contract for the Hazleton Gasification Facility Expansion. The suit named as defendants Continental

Energy Associates (CEA), the project owner, Continental Cogeneration Corporation (CCC), the general partner of CEA, and Swiss Bank Corporation, the project lender. CEA and CCC filed a separate suit against the company which, as amended, seeks damages for breach of contract, negligent design and construction, negligent misrepresentation, fraud and tortious interference with the contract of surety. The two suits, along with a third action commenced by CEA and CCC against the company's surety, the Insurance Company of North America, have been consolidated. Documents produced by CEA and CCC during the course of discovery allege claims at an amount from approximately \$10 million to approximately \$35 million. However, the construction contract contains a provision limiting damages to the value of the contract (a net of approximately \$10 million) which the company would seek to have specifically enforced. The company continues to vigorously assert its claims and to deny any liability.

The company filed an action in 1981 to collect on a promissory note issued by Meladuras Portuguesa, C.A. (Melaport) and its principal, Alberto Caldera (Caldera). In 1985, Melaport and Caldera filed a counterclaim for damages alleging the company breached a contract between Melaport and the company relating to engineering and procurement services rendered between 1973 and 1978 for a sugar cane processing facility. A local Venezuelan court ruled partially in favor of Melaport's counterclaim. The ruling was upheld by a Venezuelan appeals court on September 25, 1992 and by the Venezuelan Supreme Court on June 8, 1993. The court ruling does not specify damages to be paid but does identify certain categories of damages to which Caldera and Melaport are entitled: (1) the losses suffered by Melaport from the time it commenced operations in 1974 to 1978; (2) the value of certain equipment and other assets which had been pledged by Melaport to secure borrowing in connection with the project; (3) the value of approximately 540 acres of land which a corporation controlled by Caldera had mortgaged to secure the borrowings. The amount of damages in these three categories will be established by an appraisal process conducted by the trial court. Damages will be adjusted for inflation since the counterclaim was filed in 1985 and for interest at 12 percent per year.

While the opposing counsel has asserted that the damages are in excess of \$35 million, the company at this time cannot predict the result of the appraisal proceedings. The company has no assets in Venezuela and will challenge the enforcement in the United States if a judgment is finally issued by the Venezuelan courts. On November 2, 1993, the company filed suit against Melaport and Caldera in the United States District court for the Western District of Pennsylvania, seeking an injunction and a declaratory judgment with respect to the proceedings in Venezuela. The

(3) Contingent Liabilities (continued)

company is requesting a determination that any judgment in the Venezuelan proceedings is not enforceable against the company and is also seeking indemnification for all costs, expenses, losses and damages incurred and which may be incurred by the company in the Venezuelan proceedings and the costs and expenses of the United States District Court action. On February 25, 1994, Melaport and Caldera filed a motion asking the Court to dismiss the suit based on the lack of personal jurisdiction over the defendants and based on the doctrines of forum non conveniens, res judicata and judicial estoppel. It also asked the Court to dismiss, as premature, the company's demand for injunction and declaratory relief. If the ruling of the Venezuelan Courts is successfully enforced against the company in the United States, the liability would be material to the company.

If these lawsuits, claims and assertions, discussed above, are sustained against the company, material charges would be recorded in the company's financial statements. However, in some instances, it is not possible to determine the outcome of these matters or to estimate with any degree of certainty the range of potential costs which may be involved. In other instances, based upon the knowledge the company has of these lawsuits, claims and assertions, management believes the ultimate disposition of these matters will not result in material charges to earnings in excess of amounts recorded in the financial statements.

Other claims and assertions made against the company, will be resolved, in the opinion of management, without material additional charges to earnings.

The company has asserted claims, both in lawsuits and in administrative proceedings for contract adjustments under various contracts, which management believes to be meritorious, but no estimate can be made at present of the timing or the amount of recovery.

DRAVO CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(4) Discontinued Operations

In December, 1987, Dravo's Board of Directors approved a major restructuring program which concentrated the company's future direction exclusively on opportunities involving its natural resources business. The plan included the sale or other disposition of the former Engineering and Construction segment.

In 1985, the company contracted with a governmental authority to design, construct and operate a resource recovery facility in Long Beach, California. A dispute arose with the authority as to whether the design and construction contract was, in fact, properly completed and whether certain retainers and escrows were owed to the company. The company's sale of its contractual interest to operate the Long Beach resource recovery facility spawned a lawsuit filed by the purchaser seeking to avoid payments of the purchase price. In March 1994, the company reached a Settlement Agreement with the facility's owner and its operator that resolved all litigation between the parties. The Settlement Agreement has been approved by the United States District Court for the Central District of California. The payments the company will make under the terms of the settlement are identical to the Memorandum of Intent discussed in Note 2, Discontinued Operations, of the Notes to Consolidated Financial Statements in the company's 1993 Form 10-K. The estimated present value of the payments, or \$4.7 million, is included in the discontinued operations provision.

No provision has been made, except as noted, for the ultimate outcome of the matters in litigation which are disclosed in Note 3: Contingent Liabilities, because the outcome of these matters cannot be predicted or reasonably estimated. A ruling by the courts or a settlement of the disputes that is adverse to Dravo's position, or other unforeseen developments, could require a future additional provision for losses on discontinued operations.

DRAVO CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(4) Discontinued Operations (continued)

The remaining assets and liabilities at March 31, 1994 and December 31, 1993 of the discontinued operations relate to certain remaining unresolved construction contracts, accrued losses on leases and various insurance, environmental, and other matters associated with exiting the engineering and construction business and are presented below:

<TABLE>

<CAPTION>

(\$ in 000's)	March 31,	December 31,
<S>	<C>	<C>
	1994	1993
Current assets:		
Accounts and retainers receivable	\$ 24	\$ 23
Other	3,512	3,512
Total current assets	3,536	3,535
Accounts and retainers receivable	444	472
Other	309	309
Total assets	\$ 4,289	\$ 4,316
Current liabilities:		
Accounts and retainers payable	\$ 148	\$ 178
Accrued loss on leases	2,399	2,448
Other	4,742	5,363
Total current liabilities	7,289	7,989
Accounts and retainers payable	24	45
Accrued loss on leases	7,328	7,854
Other	14,222	15,012
Total liabilities	\$ 28,863	\$ 30,900

Net liabilities and accrued loss on leases of discontinued operations	\$ (24,574)	\$ (26,584)
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</TABLE>

(5) Change in Accounting Principle - Postemployment Benefits

The company adopted the provisions of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (SFAS 112) effective January 1, 1994. SFAS 112 requires accrual of the estimated cost of benefits provided by the employer to former or inactive employees, including their beneficiaries and covered dependents, after employment but before retirement. An after-tax charge of \$1.4 million was recorded in the first quarter as a cumulative effect for a change in accounting principle to recognize the company's estimated liability for postemployment benefits covered by SFAS 112.

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DRAVO CORPORATION AND SUBSIDIARIES
Management's Discussion and Analysis of Financial
Condition and Results of Operations

Revenue for the quarter of \$57.7 million was down \$4.1 million, or nearly seven percent, from the same period last year. The lower revenue contributed to a loss before a cumulative change in accounting principle of \$1.3 million versus a \$391,000 profit last year. The first quarter is typically the weakest for the company in terms of revenue and profitability as a significant number of its customers are in the construction industry. This year's results were especially hard hit by the number and strength of winter storms which buffeted the company's Ohio River Valley aggregate and lime operations. In addition, a major electric utility customer had an unplanned outage for approximately seven weeks at one of its generating stations.

The company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (SFAS 112) during the first quarter. A \$1.4 million charge for the cumulative effect of a change in accounting principle was taken to recognize the company's liability under SFAS 112.

Changes in the company's balance sheet since December 31, 1993 are immaterial and are primarily seasonal fluctuations. Decreases in accounts receivable and inventories are typical as sales and production levels are low in the first quarter. Accounts payable levels at March 31, 1994 are higher than normal because of construction activity associated with a \$62 million expansion at the company's Black River lime facility. The company is still negotiating the final terms of a leveraged operating lease to be used to finance the project. Finalization of the lease is expected in June. In the meantime, the company is

financing the project through internally generated funds and has negotiated a temporary \$10 million increase in its \$59 million revolving credit/letter of credit facility. At March 31, 1994, \$40.5 million of revolver debt and \$10 million in letters of credit were borrowed against the credit facility.

In 1985, a discontinued unit of the company contracted with a governmental authority to design, construct and operate a resource recovery facility in Long Beach, California. In March, 1994, the company reached a Settlement Agreement with the facility's owner and its operator that resolved all litigation between the parties. The charge resulting from the settlement was recognized in the company's 1993 financial results.

The company is currently negotiating the extension of two long-term lime supply contracts that are approaching expiration. The company expects to lower the current sales price in exchange for contract extensions of 10 years or more. Future sales prices will be subject to escalation. The total income derived from extending the contracts will far outweigh the impact lower prices will have on profit margins. Successful extension of the contracts will assure operation of the company's Maysville facility at or near full production capacity well into the next decade.

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DRAVO CORPORATION AND SUBSIDIARIES

PART II - Other Information

Item 1. Legal Proceedings

On April 11, 1994, the U. S. District Court for the Central District of California issued an order approving the Settlement Agreement executed by the parties to the litigation involving the Southeast Resource Recovery Facility and dismissing with prejudice all claims, counter-claims, cross-claims and third party claims. Information concerning the settlement is set forth under the caption "Discontinued Operations" in the 1993 Annual Report to Shareholders which accompanied the December 31, 1993 Form 10-K of the company.

Item 6. Exhibits and Reports on Form 8-K

The following is filed as an exhibit to Part I of this Form 10-Q:

Exhibit No. 11 - Statement re computation of per share earnings.

19, 20

The following is filed as an exhibit to Part II of this Form 10-Q:

Exhibit No. 3 - Articles of Incorporation and By-laws. By-laws of the Registrant, as amended March 31, 1994, is filed herein under separate cover. (9 pages)

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(b) Reports on Form 8-K

The company filed no Reports on Form 8-K for the quarter ended March 31, 1994.

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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.

DRAVO CORPORATION
(Registrant)

Date: May 11, 1994

/s/ERNEST F. LADD III
Ernest F. Ladd III
Executive Vice President,
Finance and Administration

Date: May 11, 1994

/s/LARRY J. WALKER
Larry J. Walker
Controller
(Principal Accounting Officer)

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Exhibit 11. Statement Re Computation of Per Share Earnings

<TABLE>

<CAPTION>

(In 000's, except per share data)

	Quarters ended March 31,	
	1994	1993
<S>	<C>	<C>
Primary		
Earnings:		
Earnings (loss) before cumulative effect of accounting change	\$ (1,271)	\$ 391
Deduct dividends on preference stock	637	639
Loss before cumulative effect of accounting change applicable to common stock	(1,908)	(248)
Cumulative effect of accounting change	(1,361)	--
Net loss applicable to common stock	\$ (3,269)	\$ (248)
Shares:		
Weighted average number of common shares outstanding	14,852	14,826
Dilutive effect of outstanding options and rights (as determined by the application of the treasury stock method at the average market price for the period) (1)	--	--
Weighted average number of shares outstanding, as adjusted	14,852	14,826
Primary loss per share:		
Operations	\$ (0.13)	\$ (0.02)
Cumulative effect of accounting change	(0.09)	--
Net loss per share	\$ (0.22)	\$ (0.02)
Fully diluted		
Earnings:		
Net earnings (loss)	\$ (2,632)	\$ 391
Deduct dividends on preference stock (2)	637	639
Net loss applicable to common stock	\$ (3,269)	\$ (248)
Shares:		
Weighted average number of common shares outstanding	14,852	14,826
Dilutive effect of outstanding options and rights (as determined by the application of the treasury stock method at the higher of the closing or the average market price for the period) (1)	--	--
Weighted average number of shares outstanding, as adjusted	14,852	14,826

</TABLE>

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

<TABLE>

<CAPTION>

(In 000's, except per share data)

	Quarters ended March 31,	
	1994	1993
<S>	<C>	<C>
Fully diluted loss per share:		
Operations	\$ (0.13)	\$ (0.02)
Cumulative effect of accounting change	(0.09)	--
Net loss per share	\$ (0.22)	\$ (0.02)
Additional Fully Diluted Computation (3)		
Earnings:		
Net earnings (loss)	\$ (2,632)	\$ 391
Shares:		
Weighted average number of common shares outstanding	14,852	14,826
Dilutive effect of outstanding options and rights (as determined by the application of the treasury stock method at the higher of the closing or average market price for the period)	83	31
Shares issuable from assumed exercise of convertible preference stock	1,702	1,714
Weighted average number of shares outstanding, as adjusted	16,637	16,571
Fully diluted earnings (loss) per share	\$ (0.16)	\$ 0.02

</TABLE>

- (1) The inclusion of outstanding options and rights in the computation would have an anti-dilutive effect on earnings per share.
- (2) The inclusion of preference stock in the fully dilutive computation would have an anti-dilutive effect on earnings per share.
- (3) This calculation is submitted in accordance with Securities Exchange Act of 1934, Regulation S-K, paragraph 229.601 (b) (11) although it is

contrary to paragraph 40 of APB Opinion No. 15 because it produces an anti-dilutive result.

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

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Exhibit 3

Filed with Form 10-Q

of

DRAVO CORPORATION

Commission file number 1-5642
=====

For the Quarter Ended

March 31, 1994

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DRAVO CORPORATION
BY-LAWS
As Amended March 31, 1994

ARTICLE I
Board of Directors

SECTION 1. The Board of Directors shall consist of not less than seven and not more than twelve persons to be elected by the shareholders as herein provided, the exact number to be determined from time to time by proper resolution of the Board of Directors. The Directors shall be classified with respect to the time during which they shall severally hold office, by dividing them into three classes, each consisting as nearly as possible of the same number of Directors. At each annual meeting of the shareholders, Directors in the number for those whose terms then expire shall be elected to serve for terms of three years, except that the number of Directors to be elected to such terms shall be adjusted if the number of Directors shall have been decreased as provided herein so as to eliminate the place of a Director whose term then expires.

Nominations for election to the Board of Directors may be made by the Board of Directors or by any shareholder of the Corporation entitled to notice of, and to vote at, any meeting called for the election of Directors. Nominations, other than those made by or on behalf of the Board of Directors of the Corporation, shall be noticed in writing and shall be received by the Secretary of the Corporation not later than (i) with respect to an election of directors to be held at an annual meeting of shareholders, ninety (90) days prior to the anniversary date of the immediately preceding annual meeting, and (ii) with respect to an election of directors to be held at a special meeting of shareholders, the close of business on the fifteenth (15th) day following the date on which notice of such meeting is first given to shareholders or public disclosure of the meeting is made. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and residence address of each proposed nominee and of the notifying shareholder; (b) the principal occupation of each proposed nominee; (c) a representation that the notifying shareholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (d) the total number of shares of the Corporation that will be voted for each proposed nominee; (e) the total number of shares of the Corporation owned by the notifying shareholder; (f) a description of all arrangements or understandings between the notifying shareholder and each nominee and any other person or persons (naming such person or persons) relating to such nomination or nominations by the notifying shareholder; (g) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed with the Securities and Exchange Commission; and (h) the consent of each nominee to serve as a director of the Corporation if so elected. If the information submitted to the Corporation within the time prescribed above is determined by the Chairman of the Board of

the Corporation to be deficient in any manner, the Chairman shall advise the notifying shareholder in writing of such deficiencies not later than the close of business on the fifth (5th) day following the date that the Corporation

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first received written notice of the nomination made by the notifying shareholder. The notifying shareholder must thereafter cure such deficiencies by sending a revised notification to the Secretary of the Corporation setting forth the required information which must be received by the Secretary in writing not later than the fifth (5th) day following the date that the notifying shareholder received notice from the Corporation of the deficiencies in the notifying shareholder's written nomination. Notwithstanding the above, these nominating procedures shall not apply to any special meeting of the shareholders of the Corporation called for the election of directors for which notice of the meeting was not given to shareholders at least (20) days prior to the meeting. The chairman may disregard and refuse to recognize any nomination determined by him not to have been made in accordance with the foregoing procedures.

If a vacancy occurs in the Board of Directors from any cause, including any increase in the number of Directors in the manner prescribed in this Section, a majority of the remaining members of the Board of Directors, though less than a quorum, shall have the power to elect a Director to fill such vacancy to serve for the balance of the unexpired term of the vacating director and until his or her successor has been elected and qualified.

In the case of an increase in the number of Directors in the manner specified in this Section, the additional offices so created shall be assigned by the Board of Directors to the appropriate class so that the three classes shall continue to consist, as nearly as possible, of the same number of Directors.

At any shareholders' meeting at which Directors are to be elected, separate elections shall be held for the Directors of each class then to be elected.

The Directors shall hold office during the terms for which they have been elected and until their successors are elected and qualified.

SECTION 2. The Board of Directors may, by resolution adopted by a majority of the whole Board, designate one or more committees, each committee to consist of two or more of the Directors of the Corporation. Standing committees shall include the Audit and Finance Committee and the Compensation and Nominating Committee, each of which shall be comprised exclusively of Directors who are not current employees of the Corporation.

SECTION 3. The Board of Directors, as soon as reasonably possible after each annual meeting of shareholders, shall hold a meeting to organize, elect officers of the Corporation and transact other business.

Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board of Directors and may be adjourned by the members present to any other time and place.

Special meetings may be called at any time by the chief executive officer or any two members of the Board of Directors upon at least 24 hours' notice, which need not be in writing.

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A majority of the Directors in office shall constitute a quorum for the transaction of business.

If all the Directors shall severally or collectively consent in writing to any action to be taken by the Corporation, such action shall be as valid corporate action as though it had been authorized at a meeting of the Board of Directors.

One or more Directors may participate in a meeting of the Board of Directors, or of a committee thereof, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

SECTION 4. The Board of Directors shall have the right to adopt such rules and regulations for the conduct of business, and from time to time alter and amend the same, as to them may seem proper.

SECTION 5. The Board of Directors (or the Compensation Committee by delegation from the Board), shall fix the compensation of the officers of the Corporation and such other employees who are designated by the Board of Directors as holding major positions of authority in the Corporation.

ARTICLE III Officers

SECTION 1. The officers of the Corporation to be elected by the Board of Directors shall consist of a Chairman, one or more Vice Chairman (any one or more of whom may have added to his title another word or words specially designating the further powers and duties assigned to that officer), a President, one or more Vice Presidents (any one or more of whom may be designated an Executive Vice President, Senior Vice President, Group Vice President or have added to his title another word or words specially designating the further powers and duties assigned to that officer), a

Treasurer, a Controller and a Secretary, who shall hold office until their respective successors are duly elected and qualified or until the earlier death, resignation or removal from office of any of them.

SECTION 2. Subordinate officers to be appointed by the Board of Directors shall include one or more assistant secretaries and one or more assistant treasurers.

ARTICLE III
Duties of the Chairman

SECTION 1. The Chairman, who shall be elected from among the Directors, shall preside at all meetings of the shareholders and of the Board of Directors at which he shall be present. The Chairman shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall have general management and supervision over the business and affairs of the Corporation. In the absence or inability to act of the Chairman, the officer or officers designated from time to time by the Board of Directors shall perform the duties pertaining to the office of Chairman.

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ARTICLE IV
Duties of the Vice Chairmen

SECTION 1. The Vice Chairmen, who shall be elected from among the Directors, shall perform such duties as shall be prescribed time to time by the Board of Directors or the chief executive officer.

ARTICLE V
Duties of the President

SECTION 1. The President shall be the chief operating officer of the Corporation and, subject to the control of the Board of Directors and the Chairman, shall be in direct and active charge of the business and affairs of the Corporation. In the absence or inability to act of the President, the officer or officers designated from time to time by the Board of Directors shall perform the duties pertaining to the office of President.

ARTICLE VI
Duties of the Vice Presidents

SECTION 1. The Vice Presidents shall perform such duties as shall be prescribed from time to time by the Board of Directors or the chief executive officer.

ARTICLE VII
Duties of the Secretary

SECTION 1. The Secretary shall, under the direction of the chief executive officer, record the proceeding of all meetings of the Board of Directors and of the shareholders for presentation in a suitable book. The Secretary shall notify the shareholders of all annual and special meetings and the members of the Board of Directors of all special meetings, have charge of the corporate seal and perform all the duties which are customary and incident to the office of Secretary of like companies.

ARTICLE VIII
Duties of the Treasurer

SECTION 1. The Treasurer shall, under the direction of the Vice President in charge of financial affairs, have general charge of the funds of the Corporation and shall make such reports of the receipts and disbursements in such form and manner as the Board of Directors may direct. He shall if so directed by the chief executive officer, attend any or all meetings of the Board of Directors and report on his activities as the chief executive officer may prescribe.

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ARTICLE IX
Duties of the Controller

SECTION 1. The Controller shall, under the direction of the Vice President in charge of financial affairs, maintain adequate records of all assets, liabilities and transactions of the Corporation; cause adequate audits to be currently and regularly made; prepare financial, cost and tax reports and other reports of a financial and accounting nature required by governmental agencies; and in conjunction with other officers and heads of departments initiate and enforce controls and procedures whereby the business of the Corporation shall be conducted with the maximum of efficiency and economy. He shall, if so directed by the chief executive officer, attend any or all meetings of the Board of Directors and report on his activities as the chief executive officer may prescribe.

ARTICLE X
Checks, Notes and Contracts

SECTION 1. All checks drawn upon the funds of the Corporation and all

promissory notes, drafts, bills of exchange or other negotiable instruments shall be signed in the name of the Corporation by such person or persons as the Board of Directors may from time to time designate.

SECTION 2. All written contracts other than those mentioned in Section 1 of this Article shall be signed in the name of the Corporation by the Chairman or a Vice Chairman or the President or a Vice President, unless otherwise directed by the Board of Directors.

ARTICLE XI Elections

SECTION 1. In elections of directors by shareholders, voting need not be by ballot unless required by vote of the shareholders before the voting for election of directors begins.

Election of officers shall be in such manner as a majority of the Directors present and voting at a duly organized meeting may determine.

ARTICLE XII Offices

SECTION 1. The registered office of the Corporation shall be in the City of Pittsburgh, County of Allegheny, State of Pennsylvania, but the Board of Directors may establish another office or other offices at any place or places in the state of Pennsylvania or elsewhere.

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ARTICLE XIII Seal

SECTION 1. The seal of the Corporation shall have inscribed thereon the name of the Corporation, the year of its creation, the name of the State under whose laws it was created and the words "Corporate Seal".

ARTICLE XIV Meetings of the Shareholders

SECTION 1. Meetings of the shareholders may be held at such places within

or without the State of Pennsylvania as may be fixed by the Board of Directors.

The annual meeting of the shareholders of the Corporation for the election of Directors shall be held on such date and at such time and place as may be fixed from time to time by the Board of Directors, provided, however, that in fixing the date, time and place of said meeting the Board of Directors shall comply with all applicable statutes and regulations as well as the rules of the New York Stock Exchange.

SECTION 2. Special meetings of the shareholders may be called at any time by the Board of Directors, the Chairman of the Board or the President of the Corporation. Notice shall be given by the Secretary of the time and place of holding the annual and any special meeting of the shareholders by mailing such notice to the addresses of said shareholders, as shown by the share register or the records of the Corporation, at least five days prior to the date of the meeting, except when a longer period of notice is required by law.

SECTION 3. Unless otherwise provided in a resolution of the Board of Directors with respect to any meeting of shareholders and stated in the notice of the meeting, the presence of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast on a particular matter to be acted upon at the meeting shall constitute a quorum for purposes of consideration and action on the matter. If no quorum be present at any meeting so called, the holders of less than a majority of said shares may meet and adjourn the meeting from time to time until a quorum be present or until action may be taken in the absence of a quorum in the manner prescribed by law.

ARTICLE XV Share Certificates

SECTION 1. Share certificates shall be issued to the shareholders and transfers thereof shall be made by a transfer agent, if one or more transfer agents are appointed by the Board of Directors, otherwise by the Secretary or Assistant Secretary. Transfers shall be made in person or by power of attorney on the books of the Corporation on the surrender of the certificates. The share certificates shall be signed by the Chairman, the President or a Vice President or other officer designated by the Board of Directors, countersigned by the Treasurer or Assistant Treasurer or other officers designated by the Board of Directors and sealed with the seal of the Corporation.

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One or more transfer agents and registrars of the shares of stock of the Corporation may be appointed by the Board of Directors. The signatures, countersignatures, and seal, or any of them on the share certificates may be executed in facsimile, engraved or printed, provided that the share certificates are signed or countersigned by a corporate transfer agent or by a corporate registrar other than the Corporation itself, appointed by the Board

ARTICLE XVI
Resignations

SECTION 1. Any Director or officer may resign his office at any time, such resignation to be in writing and to take effect from the time of its receipt by the corporation, unless some time be fixed in the said resignation, and then from that time. The acceptance of a resignation shall not be required to make it effective.

ARTICLE XVII
Indemnification

SECTION 1. The Corporation shall indemnify every person who is or was a party or is threatened to be made a party to or is involved (as a witness or otherwise) in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether or not by or in the right of the Corporation or otherwise (hereafter a "proceeding"), by reason of the fact that he or she is or was a Director or officer or employee of the Corporation, or is or was serving at the request of the Corporation as a Director, officer or trustee or employee of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, or by reason of any action alleged to have been taken or not taken by him or her while acting in any such capacity, against expenses (including attorneys' fees) and all liability and loss, including judgments, fines, ERISA excise taxes and penalties and amounts paid or to be paid in settlement (whether with or without court approval), actually and reasonable incurred by him or her in connection with such threatened, pending or completed action, suit or proceeding, except to the extent prohibited by law as the same exists or may hereafter be amended (except in the case of any such amendment which has the effect of narrowing indemnification rights that the Corporation was permitted to provide prior to such amendment); provided, however, that except with respect to claims described in Section 2 hereof, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof), initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. Subject to the foregoing indemnification, the right to indemnification conferred in this Section shall include the right to be paid by the Corporation expenses incurred; provided, however, that to the extent required by law, the payment of such expenses in advance of the final disposition of a proceeding shall be made only upon receipt of an undertaking by or on behalf of such person to repay such amounts if it shall ultimately be determined that he or she is not entitled to be indemnified under this Article or otherwise.

SECTION 2. If a claim under Section 1 is not paid in full by the Corporation within forty-five (45) days after a written claim has been received by the Corporation, the claimant may, at any time thereafter, bring suit against the Corporation to recover the unpaid amount of the claim. The claimant shall also be entitled to be paid the expenses of prosecuting such claim to the extent he or she is successful in whole or in part on the merits or otherwise in establishing his or her right to indemnification or to the advancement of expenses.

SECTION 3. The right to indemnification, including the right to the advancement of expenses, conferred in this Article shall not be exclusive of any other rights to which a person seeking indemnification or advancement of expenses hereunder may be entitled under any by-law, agreement, vote of shareholders, or directors or otherwise, both as to action in his or her official capacity and as to action in any other capacity while holding that office.

SECTION 4. The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification obligations, including its obligation to advance expenses, whether arising under or pursuant to this Article or otherwise.

SECTION 5. The Corporation shall have the express authority to enter into such agreements as the Board of Directors deem appropriate for the indemnification of, including the advancement of expenses to, present or future Directors, officers and employees of the Corporation in connection with their service to, or status with, the Corporation or any other corporation, partnership, joint venture, trust or other enterprise, including any employee benefit plan, for whom such person is serving at the request of the Corporation.

SECTION 6. The right to indemnification, including the right to the advancement of expenses provided herein, shall be a contract right, shall continue as to a person who has ceased to be a director, officer, employee, or to serve in any other of the capacities described herein, and shall inure to the benefit of the heirs, executors and administrators of such person. Notwithstanding any amendment, alteration or repeal of this Article or any of its provisions or the adoption of any provision inconsistent with this Article or any of its provisions, any person who is or was a director, officer or employee or is or was serving at the request of the Corporation as a director, officer, employee, or trustee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be entitled to indemnification, including the right to the advancement of expenses, in accordance with the provisions hereof and thereof with respect to any action taken or omitted prior to such amendment, alteration or repeal or the adoption of such inconsistent provision except to the extent such amendment, alteration, repeal or inconsistent provisions provides broader rights with respect to indemnification, including the advancement of expenses, than the Corporation was permitted to provide prior to the amendment, alteration, repeal, or the adoption of such inconsistent provision or to the

extent otherwise prescribed by law.

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ARTICLE XVIII

By-Laws--Adoption, Alteration, Amendment and Repeal

SECTION 1. The By-Laws of the Corporation may be adopted, altered, amended or repealed by a majority vote of the shareholders present and voting at any regular or special meeting duly convened after notice to the shareholders of that purpose or by a majority vote of the members of the Board of Directors present and voting at any regular or special meeting, subject always to the power of the shareholders to change any such action taken by the Board of Directors.

ARTICLE XIX

Limitation on Director Liability

SECTION 1. A director of the Corporation shall not be personally liable for monetary damages for any action taken or failure to take any action unless the director has breached or failed to perform the duties of his office under Section 8363 of the Directors' Liability Act and such breach or failure to perform constitutes self-dealing, willful misconduct or recklessness; provided, however, that the foregoing provision shall not eliminate or limit the liability of a director (i) for any responsibility or liability of such director pursuant to any criminal statute, or (ii) for any liability of a director for the payment of taxes pursuant to local, State or Federal law. This Article XIX shall not apply to any actions filed prior to January 27, 1987 or to any breach of performance of duty or any failure of performance of duty by any director occurring prior to January 27, 1987.

SECTION 2. Notwithstanding any other provision of law, the Articles of Incorporation or the By-Laws of the Corporation, the affirmative vote of shareholders entitled to cast at least a majority of the votes which all shareholders would be entitled to cast in an annual election of directors (or such greater percentage of votes as shall be required by law) shall be required to adopt any amendment, alteration or repeal of, or to adopt any provision inconsistent with, this Article XIX or any of its provision, including this Section 2. Neither the repeal or modification of this Article XIX or any of its provisions nor the adoption of any provision inconsistent with this Article XIX or any of its provisions shall adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification or the adoption of such inconsistent provision.

ARTICLE XX

Applicability of Certain provisions of the Pennsylvania Business
Corporation Law

SECTION 1. Subchapters G (relating to Control Share Acquisitions), H (relating to Disgorgement by Certain Controlling Shareholders Following Attempts to Acquire Control), I (relating to Severance Compensation for Employees Terminated Following Certain Control-Share Acquisitions), and J (relating to the Status of Labor Contracts Following Certain Business Combination Transactions) of Chapter 25 of the Pennsylvania Business Corporation Law shall not be applicable to the Corporation.