

Edgar Filing: HERCULES INC - Form 8-K/A

HERCULES INC
Form 8-K/A
July 19, 2002

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 8-K/A

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

Date of Report (Date of earliest event reported): April 29, 2002

Hercules Incorporated

(Exact name of registrant as specified in its charter)

Delaware

001-00496

51-0023450

(State or other
jurisdiction of
incorporation)

(Commission File Number)

(IRS Employer
Identification Number)

Hercules Plaza
1313 North Market Street
Wilmington, Delaware 19894-0001

(Address of principal executive offices) (Zip Code)

(302) 594-5000

(Registrant's telephone number, including area code)

Item 2. Acquisition or Disposition of Assets.

On April 29, 2002, Hercules Incorporated ("Hercules") announced the completion of the sale of the Water Treatment Business, consisting of the BetzDearborn Division and certain Pulp and Paper Division treatment businesses, to GE Specialty Materials ("GESM"), a unit of General Electric Company.

The sale price was \$1.8 billion in cash, resulting in net after tax proceeds of approximately \$1.665 billion. As previously announced, the Company used the net proceeds to prepay debt under its senior credit facility and ESOP credit facility. Pursuant to the March 6, 2002 amendments to the senior credit facility and the ESOP credit facility, the following provisions became effective upon the consummation of the sale and the prepayment of debt:

- i. the release of the subsidiary stock pledged to the collateral agent;

Edgar Filing: HERCULES INC - Form 8-K/A

- ii. the elimination of the requirement that stock of any additional subsidiaries be pledged in the future; and
- iii. increases in the permitted amounts of asset purchases and dispositions.

Proceeds from the divestiture will also serve as collateral for outstanding letters of credit.

Item 7. Financial Statements and Exhibits.

(b) Pro Forma Financial Information.

Unaudited Pro Forma Consolidated Statement of Operations for the years ended December 31, 2001, 2000, and 1999.

Unaudited Pro Forma Consolidated Statement of Operations for the three months ended March 31, 2002 and 2001.

Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2002.

(c) Exhibits.

None

Basis of Presentation

The following unaudited pro forma consolidated financial statements reflect the divestiture of Hercules' Water Treatment Business after giving effect to the pro forma adjustments described in the accompanying notes. These unaudited pro forma consolidated financial statements have been prepared from, and should be read in conjunction with, the historical consolidated financial statements and notes thereto of Hercules, which are included in Hercules' Annual Report on Form 10-K for the year ended December 31, 2001 and Quarterly Report on Form 10-Q as of March 31, 2002 and for the three months ended March 31, 2002 and 2001, respectively.

The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred had the divestiture been consummated at the dates indicated, nor is it necessarily indicative of future operating results or financial position of Hercules.

The unaudited pro forma consolidated statements of operations give effect to the divestiture as if it had occurred at the beginning of the earliest period presented. The unaudited pro forma balance sheet gives effect to the divestiture as if it had occurred on March 31, 2002.

HERCULES INCORPORATED
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2001
(UNAUDITED)

(In millions, except per share)

Edgar Filing: HERCULES INC - Form 8-K/A

| | Pro Forma Adjustments | | | Pr |
|---|-----------------------|------------------------------|-------------------|----|
| | Hercules | Water Treatment Business (1) | Other Adjustments | |
| Net Sales | \$ 2,620 | \$ 843 | \$ -- | \$ |
| Cost of Sales | 1,464 | 336 | (15) (2) | |
| Selling, general and administrative expenses | 743 | 341 | -- | |
| Research and development | 67 | 14 | -- | |
| Goodwill and intangible asset amortization | 76 | 52 | -- | |
| Other operating income, net | (17) | -- | -- | |
| Profit from operations | 287 | 100 | 15 | |
| Interest and debt expense | 196 | -- | 128 (3) | |
| Preferred security distributions of subsidiary trusts | 58 | -- | -- | |
| Other expense, net | (10) | (2) | -- | |
| Income before income taxes and equity loss | 23 | 98 | (113) | |
| Provision (benefit) for income taxes | 72 | 55 | (40) (4) | |
| (Loss) income before equity loss | (49) | 43 | (73) | |
| Equity loss of affiliated companies, net of tax | (9) | -- | -- | |
| Net (loss) income | \$ (58) | \$ 43 | \$ (73) | \$ |
| Basic and diluted loss per share: | | | | |
| Per share - basic | \$ (0.54) | | | \$ |
| Weighted average shares outstanding - basic | 108.2 | | | |
| Per share - assuming dilution | \$ (0.54) | | | \$ |
| Weighted average shares outstanding - diluted | 108.2 | | | |

See accompanying notes to pro forma consolidated financial statements.

HERCULES INCORPORATED
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2000
(UNAUDITED)

| | (In millions, except per share) | | |
|---|---------------------------------|------------------------------|-------------------|
| | Hercules | Water Treatment Business (1) | Other Adjustments |
| Net Sales | \$ 3,152 | \$ 849 | \$ -- |
| Cost of Sales | 1,784 | 332 | (16) (2) |
| Selling, general and administrative expenses | 810 | 367 | -- |
| Research and development | 80 | 16 | -- |
| Goodwill and intangible asset amortization | 80 | 56 | -- |
| Other operating income, net | (46) | -- | -- |
| Profit from operations | 444 | 78 | 16 |
| Interest and debt expense | 164 | -- | 121 (3) |
| Preferred security distributions of subsidiary trusts | 96 | -- | -- |
| Other expense, net | (18) | -- | -- |

Edgar Filing: HERCULES INC - Form 8-K/A

| | | | |
|---|---------|-------|----------|
| Income (loss) before income taxes and equity loss | 166 | 78 | (105) |
| Provision (benefit) for income taxes | 66 | 46 | (37) (4) |
| Income (loss) before equity loss | 100 | 32 | (68) |
| Equity loss of affiliated companies, net of tax | (2) | -- | -- |
| Net income (loss) | \$ 98 | \$ 32 | \$ (68) |
| Basic and diluted earnings per share: | | | |
| Per share - basic | \$ 0.91 | | |
| Weighted average shares outstanding - basic | 107.2 | | |
| Per share - assuming dilution | \$ 0.91 | | |
| Weighted average shares outstanding - diluted | 107.4 | | |

See accompanying notes to pro forma consolidated financial statements.

HERCULES INCORPORATED
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1999
(UNAUDITED)

| | | (In millions, except per share) Pro Forma Adjustments | |
|---|----------|--|----------------------|
| | Hercules | Water Treatment Business (1) | Other Adjustments |
| Net Sales | \$ 3,309 | \$ 846 | \$ -- |
| Cost of Sales | 1,831 | 325 | (18) (2) |
| Selling, general and administrative expenses | 787 | 340 | -- |
| Research and development | 85 | 18 | -- |
| Goodwill and intangible asset amortization | 79 | 62 | -- |
| Other operating expenses, net | 47 | -- | -- |
| Profit from operations | 480 | 101 | 18 |
| Interest and debt expense | 185 | -- | 106 (3) |
| Preferred security distributions of subsidiary trusts | 51 | -- | -- |
| Other expense, net | (2) | (1) | -- |
| Income (loss) before income taxes and equity income | 242 | 100 | (88) |
| Provision (benefit) for income taxes | 75 | 58 | (31) (4) |
| Income (loss) before equity income | 167 | 42 | (57) |
| Equity income of affiliated companies, net of tax | 1 | -- | -- |
| Net income (loss) | \$ 168 | \$ 42 | \$ (57) |
| Basic and diluted earnings per share: | | | |
| Per share - basic | \$ 1.63 | | |
| Weighted average shares outstanding - basic | 103.2 | | |
| Per share - assuming dilution | \$ 1.62 | | |
| Weighted average shares outstanding - diluted | 103.9 | | |

See accompanying notes to pro forma consolidated financial statements.

Edgar Filing: HERCULES INC - Form 8-K/A

HERCULES INCORPORATED
 PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE THREE MONTHS ENDED MARCH 31, 2002
 (UNAUDITED)

| | (In millions, except per share) | | | |
|---|---------------------------------|--------------------------------|----------------------|-------|
| | Pro Forma Adjustments | | | |
| | Hercules (5) | Water Treatment Business | Other Adjustments | Pro |
| | ----- | ----- | ----- | ----- |
| Net Sales | \$ 402 | \$ -- | | \$ |
| Cost of Sales | 243 | -- | (4) (2) | |
| Selling, general and administrative expenses | 88 | -- | -- | |
| Research and development | 10 | -- | -- | |
| Goodwill and intangible asset amortization | 2 | -- | -- | |
| Other operating expenses, net | 5 | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Profit from operations | 54 | -- | 4 | |
| Interest and debt expense | 36 | -- | 20 (3) | |
| Preferred security distributions of subsidiary trusts | 15 | -- | -- | |
| Other expense, net | (4) | -- | -- | |
| | ----- | ----- | ----- | ----- |
| (Loss) income before income taxes and equity income | (1) | -- | (16) | |
| Provision (benefit) for income taxes | 2 | -- | (6) (4) | |
| | ----- | ----- | ----- | ----- |
| (Loss) income before equity income | (3) | -- | (10) | |
| Equity income of affiliated companies, net of tax | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Net (loss) income from continuing operations | \$ (3) | \$ -- | \$ (10) | \$ |
| | ===== | ===== | ===== | ===== |
| Basic and diluted (loss) earnings per share: | | | | |
| Per share - basic | \$ (0.03) | | | \$0 |
| Weighted average shares outstanding - basic | 109.0 | | | 10 |
| Per share - assuming dilution | \$ (0.03) | | | \$0 |
| Weighted average shares outstanding - diluted | 109.0 | | | 10 |

See accompanying notes to pro forma consolidated financial statements.

HERCULES INCORPORATED
 PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE THREE MONTHS ENDED MARCH 31, 2001
 (UNAUDITED)

| | (In millions, except per share) | | | |
|--|---------------------------------|--------------------------------|----------------------|-------|
| | Pro Forma Adjustments | | | |
| | Hercules (5) | Water Treatment Business | Other Adjustments | Pro |
| | ----- | ----- | ----- | ----- |
| Net Sales | \$ 498 | \$ -- | | \$ |
| Cost of Sales | 326 | -- | (4) (2) | |
| Selling, general and administrative expenses | 101 | -- | -- | |

Edgar Filing: HERCULES INC - Form 8-K/A

| | | | | |
|---|-----------|-------|----------|-----------|
| Research and development | 15 | -- | -- | |
| Goodwill and intangible asset amortization | 7 | -- | -- | |
| Other operating expenses, net | 3 | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Profit from operations | 46 | | 4 | |
| Interest and debt expense | 55 | -- | 36 (3) | |
| Preferred security distributions of subsidiary trusts | 15 | -- | | |
| Other expense, net | (2) | -- | | |
| | ----- | ----- | ----- | ----- |
| (Loss) income before income taxes and equity loss | (26) | -- | (32) | |
| (Benefit) provision for income taxes | (10) | -- | (11) (4) | |
| | ----- | ----- | ----- | ----- |
| (Loss) income before equity loss | (16) | -- | (21) | |
| Equity loss of affiliated companies, net of tax | (3) | -- | | |
| | ----- | ----- | ----- | ----- |
| Net (loss) income from continuing operations | \$ (19) | \$ -- | \$ (21) | \$ -- |
| | ===== | ===== | ===== | ===== |
| Basic and diluted (loss) earnings per share: | | | | |
| Per share - basic | \$ (0.17) | | | \$ (0.17) |
| Weighted average shares outstanding - basic | 107.9 | | | 107.9 |
| Per share - assuming dilution | \$ (0.17) | | | \$ (0.17) |
| Weighted average shares outstanding - diluted | 107.9 | | | 107.9 |

See accompanying notes to pro forma consolidated financial statements.

HERCULES INCORPORATED
PRO FORMA CONSOLIDATED BALANCE SHEET
MARCH 31, 2002
(UNAUDITED)

| ASSETS | Hercules | Business (6) | Adjust |
|---|----------|--------------|----------|
| | ----- | ----- | ----- |
| Current assets | | | |
| Cash and cash equivalents | \$ 52 | \$ -- | \$ -- |
| Accounts and notes receivable, net | 318 | -- | |
| Inventories | 161 | -- | |
| Assets of business held for sale | 1,914 | (1,914) | |
| | ----- | ----- | ----- |
| Total current assets | 2,445 | (1,914) | |
| Property, plant, and equipment | 1,866 | -- | |
| Accumulated depreciation and amortization | (1,208) | -- | |
| | ----- | ----- | ----- |
| Net property, plant, and equipment | 658 | -- | |
| Goodwill and other intangible assets, net | 610 | -- | |
| Other assets | 775 | -- | |
| | ----- | ----- | ----- |
| Total assets | \$ 4,488 | \$ (1,914) | \$ 2,574 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable | \$ 131 | \$ -- | \$ -- |
| Accrued expenses | 515 | -- | |
| Short-term debt | 205 | -- | |
| Liabilities of business held for sale | 280 | (280) | |
| | ----- | ----- | ----- |
| Total current liabilities | 1,131 | (280) | |
| Long-term debt | 1,984 | -- | (1,984) |
| Deferred income taxes | 191 | -- | |

Edgar Filing: HERCULES INC - Form 8-K/A

| | | | |
|---|----------|------------|-------|
| Postretirement benefits and other liabilities | 478 | -- | |
| Commitments and contingencies | -- | -- | |
| Company-obligated preferred securities of subsidiary trusts | 624 | -- | |
| Stockholders' equity | | | |
| Series preferred stock | -- | -- | |
| Common stock (shares issued: 2002 - 159,984,444) | 83 | -- | |
| Additional paid-in capital | 691 | -- | |
| Unearned compensation | (104) | -- | |
| Other comprehensive losses | (273) | 113 | |
| Retained earnings | 1,520 | (1,747) | 1, |
| | ----- | ----- | ----- |
| | 1,917 | (1,634) | 1, |
| Reacquired stock, at cost (shares: 2002 - 50,964,488) | (1,837) | -- | |
| | ----- | ----- | ----- |
| Total stockholders' equity | 80 | (1,634) | 1, |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 4,488 | \$ (1,914) | \$ |
| | ===== | ===== | ===== |

See accompanying notes to pro forma consolidated financial statements.

HERCULES INCORPORATED
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

- Eliminates the results of operations of our Water Treatment Business for the period as if the divestiture had been completed as of the beginning of the period presented.
- Pursuant to a distribution agreement with GESM, the Company will continue to purchase some products from the Water Treatment Business. This adjustment is the estimated incremental cost of purchasing product from an outside manufacturer (GESM) and reducing gross profit to a distribution profit only.
- Reflects the reduction in interest expense attributable to the application of the proceeds from the Water Treatment Business sale to the reduction in long-term debt.
- Reflects income tax effect of pro forma adjustments at a U.S. federal statutory rate of 35%.
- Reflects the results from continuing operations of the Company, which already exclude the Water Treatment Business as this business has been reported as a discontinued operation, for the respective period.
- Eliminates the assets and liabilities attributed to the Water Treatment Business as if the divestiture had been completed as of the balance sheet date.
- Reflects the application of the estimated proceeds of the sale of the Water Treatment Business to prepay debt outstanding under Tranche A, Tranche D, the revolving credit facility and the ESOP Note, as follows:

(in millions)

Gross Proceeds \$ 1,800

Edgar Filing: HERCULES INC - Form 8-K/A

| | | |
|----------------------|--------|--------|
| Principal Repayments | | |
| Tranche A | \$ 436 | |
| Tranche D | 370 | |
| Revolver | 605 | |
| ESOP | 75 | 1,486 |
| | ----- | |
| | | 314 |
| Prepayment penalties | | (34) |
| Tax withholdings | | (9) |
| | | ----- |
| Cash | | \$ 271 |
| | | ===== |

The cash balance of \$271 million includes \$65 million of sale proceeds that was used on April 29, 2002 to repay borrowings against the revolver made during April to make a pension fund contribution.

8. Reflects principal repayments of \$1,486 million plus the write-off of the remaining unamortized fair market value step-up on the ESOP credit facility of \$8 million.

HERCULES INCORPORATED
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

9. Reflects the elimination of transaction costs of \$55 million which are deferred at March 31, 2002 and the write-off of \$17 million in debt issuance costs.
10. Reflects elimination of accrued taxes related to reorganization related activities undertaken to facilitate the transaction which were withheld from the gross proceeds by GESM and the tax impact of prepayment penalties, debt issuance costs and ESOP fair market value adjustments.
11. Reflects the following:

(in millions)

| | |
|---|----------|
| Gross proceeds | \$ 1,800 |
| Transaction costs | (55) |
| Prepayment penalties, net of taxes at 35% | (22) |
| Write-off of unamortized debt issuance costs, net of taxes at 35% | (11) |
| Write-off of ESOP debt fair market value step-up, net of taxes at 35% | 5 |
| | ----- |
| Adjustment to retained earnings | \$ 1,717 |
| | ===== |

SIGNATURE

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

Edgar Filing: HERCULES INC - Form 8-K/A

HERCULES INCORPORATED

July 19, 2002

By: /s/ Israel J. Floyd

Israel J. Floyd
Corporate Secretary and General Counsel