

BRUSH WELLMAN INC

FORM 10-Q (Quarterly Report)

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Address	17876 ST CLAIR AVE CLEVELAND, Ohio 44110
Telephone	216-486-4200
CIK	0000014957
Fiscal Year	12/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 3, 1994

OR

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

For the transition period from _____ to _____

Commission file number 1-7006

BRUSH WELLMAN INC.

(Exact name of Registrant as specified in charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-0119320
(I.R.S. Employer
Identification No.)

17876 St. Clair Avenue, Cleveland, Ohio
(Address of principal executive offices)

44110
(Zip Code)

Registrant's telephone number, including area code 216-486-4200

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 ☐

As of April 30, 1994, there were 16,088,315 shares of Common Stock, par value \$1 per share, outstanding.

PART I. FINANCIAL INFORMATION

BRUSH WELLMAN INC. AND SUBSIDIARIES

Item 1. Financial Statements The consolidated financial statements of Brush Wellman Inc. and its subsidiaries for the quarter ended April 3, 1994, are as follows:

Consolidated Statements of Income -
Three months ended April 3, 1994 and April 4, 1993.

Consolidated Balance Sheets -
April 3, 1994 and December 31, 1993.

Consolidated Statements of Cash Flows - Three months ended April 3, 1994 and April 4, 1993.

Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except share and per share amounts)	First Quarter Ended	
	April 3, 1994	April 4, 1993

Net sales	\$84,794	\$69,380
Costs and expenses:		
Cost of sales	61,600	53,535
Selling, administrative and general expenses	12,617	11,621
Research and development expenses	2,186	1,766
Interest expense	471	855
Other-net	776	36
	-----	-----
	77,650	67,813
	-----	-----
Income before income taxes	7,144	1,567
Income taxes	1,550	413
	-----	-----
Net Income	\$5,594	\$1,154
	=====	=====
Per Share of Common Stock:	\$0.35	\$0.07
Cash dividends per common share	\$0.05	\$0.05
Weighted average number of common shares outstanding	16,157,216	16,118,194

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)	April. 3, 1994	Dec. 31, 1993

Assets		
Current Assets		
Cash and cash equivalents	\$14,443	\$7,690
Accounts receivable	49,771	46,462
Inventories	85,698	86,477
Prepaid expenses and other current assets	15,894	15,595
	-----	-----
Total Current Assets	165,806	156,224
Other Assets	15,933	16,231
Property, Plant and Equipment	341,021	337,342
Less allowances for depreciation, depletion and impairment	223,611	218,416
	-----	-----
	117,410	118,926
Goodwill	1,932	1,991
	-----	-----
	\$301,081	\$293,372
	=====	=====
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt	\$17,718	\$16,263
Accounts payable	5,378	5,427
Other liabilities and accrued items	21,029	20,822
Dividends payable	-	804
Income taxes	9,479	7,636
	-----	-----
Total Current Liabilities	53,604	50,952
Other Long-Term Liabilities	41,090	40,664
Long-Term Debt	24,195	24,000
Deferred Income Taxes	5,315	5,682
Shareholders' Equity	176,877	172,074
	-----	-----
	\$301,081	\$293,372
	=====	=====

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

First Quarter Ended

(Dollars in thousands)

Apr. 3, Apr. 4
1994 1993

Net Income	\$5,594	\$1,154
Adjustments to Reconcile Net Income to Net Cash		
Provided From Operating Activities:		
Depreciation, depletion and amortization	4,638	4,851
Amortization of mine development	721	631
Decrease (Increase) in accounts receivable	(2,449)	(8,106)
Decrease (Increase) in Inventory	779	2,039
Decrease (Increase) in prepaid and other current assets	(312)	881
Increase (Decrease) in accounts payable and accrued expenses	(229)	52
Increase (Decrease) in interest and taxes payable	1,456	(128)
Increase (Decrease) in deferred income tax	(368)	(634)
Other - net	618	(35)
Net Cash Provided From Operating Activities	10,448	705
Cash Flows from Investing Activities:		
Payments for purchase of property, plant and equipment	(3,608)	(2,089)
Payments for mine development	(141)	(240)
Net Cash Provided From (Used in) Investment Activities	(3,749)	(2,329)
Cash Flows from Financing Activities:		
Proceeds from (Repayment of) short-term debt - net	1,029	913
Proceeds from issuance of long-term debt	0	1,010
Issuance of Common Stock under stock option plans	14	13
Payments of dividends	(1,609)	(2,574)
Net Cash Provided From (Used in) Financing Activities	(566)	(638)
Effects of Exchange Rate Changes	620	807
Net Change in Cash and Cash Equivalents	6,753	(1,455)
Cash and Cash Equivalents at Beginning of Period	7,690	4,190
Cash and Cash Equivalents at End of Period	\$14,443	\$2,735
	=====	=====

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

April 3, 1994

NOTE A - ACCOUNTING POLICIES

In management's opinion, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the Financial position as of April 3, 1994 and December 31, 1993 and the results of operations for the three months ended April 3, 1994 and April 4, 1993.

NOTE B - INVENTORIES		
(Dollars in thousands)	April 3, 1994	Dec 31, 1993

Principally average cost:		
Raw materials and supplies	\$20,326	\$19,431
In Process	48,866	50,349
Finished	34,352	33,720
	-----	-----
	103,544	103,500
 Excess of average cost over LIFO inventory value	 17,846	 17,023
	-----	-----
	\$85,698	\$86,477
	=====	=====

NOTE C - OTHER POSTEMPLOYMENT BENEFITS

Effective January 1, 1994, the Company adopted Financial Accounting Standards Board Statement No. 112, "Employers' Accounting for Postemployment Benefits." The cumulative effect of adoption had essentially no effect on the Company's cash position.

NOTE D - INCOME TAXES

Effective January 1, 1993, the Company adopted Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes." The cumulative effect of adoption had essentially no effect on earnings and no effect on the Company's cash position.

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

First quarter 1994 sales of \$85 million represents an increase of 22% over the \$69 million recorded in first quarter 1993 and 8% over the \$78 million recorded in fourth quarter 1993. The increases were primarily in beryllium alloys and precious metal products. International sales totaled \$25 million and comprised 29% of total sales in the first quarter 1994 compared to \$18 million or 27% of total sales in 1993.

Sales of beryllium alloys increased 20% in first quarter 1994 from the year ago period. Economic strength, coupled with market development efforts, accounts for the sales increase. The strong U.S. automotive market, along with telecommunications, are the key market growth areas for beryllium alloys. We expect favorable sales comparisons throughout 1994.

Beryllium sales decreased slightly from the year ago period. Final shipments of AlBeMet(TM) components for a computer disk drive occurred in first quarter 1994. This program was active throughout 1993. The Defense Logistics Agency (DLA) supply contract will be completed in second quarter 1994. Therefore, lower 1994 second half sales for this product line are expected. Development of new products and applications are focused on aerospace and avionics markets.

Beryllia ceramic sales were flat in first quarter 1994 as compared to first quarter 1993. Strong U.S. automotive and telecommunications equipment demands were offset by the decline in defense applications. New products based on direct bond copper technology are now in production.

Specialty metal systems sales increased in first quarter 1994 as compared to first quarter 1993. Application development efforts, coupled with strength in the automotive, telecommunications, computer and semiconductor industries, are generating increased demand.

Sales of precious metal products were up significantly in first quarter 1994 over the comparable 1993 period and exceeded the strong fourth quarter of 1993. This increase is being fueled by the demand from semiconductor producers that utilize the Company's frame lid assembly products. It is anticipated that this demand will slow over the remainder of 1994. Precious metal vapor deposition targets represent a growing new product line.

Gross margin (sales less cost of sales) increased to 27.4% of sales in first quarter 1994 as compared to 22.8% of sales in first quarter 1993. Higher sales and production volumes of beryllium alloys account for the improvement. In addition to lower unit costs from the higher throughput, better manufacturing efficiency and yields also contributed. Product mix and the relatively weaker dollar also enhanced first quarter alloy margins. The precious metal content of sales increased in first quarter 1994 as compared to first quarter 1993 in both price and quantity, and this tends to restrain the gross margin percentage. First quarter 1993 gross margin was negatively impacted by manufacturing problems with the AlBeMet(TM) disk drive component.

Selling, administrative and general expenses were \$12.6 million or 14.9% of sales, up from \$11.6 million or 16.7% of sales in first quarter 1993. The increase is primarily in administrative and general expenses which include an increased accrual for incentive compensation.

Research and development (R&D) expenses in first quarter 1994 were more than 20% higher than in first quarter 1993. This increase is mainly in beryllium products where efforts are focused

on new product development, especially in AlBeMet(TM) materials. R&D expenses for the year 1994 are expected to approximate \$8 million as compared to \$7.1 million during 1993.

Interest expense was down substantially in first quarter 1994 as compared to first quarter 1993. This is due principally to lower average debt outstanding. A \$3 million 7-1/4% industrial revenue bond was refunded in February 1994 which will reduce interest expense further.

Other-net expense was \$0.8 million in first quarter 1994 compared to less than \$0.1 million in first quarter 1993. This category includes non-operating items such as currency exchange and translation effects, interest income and amortization of goodwill. First quarter 1993 included \$0.7 million of nonrecurring gains from a contract settlement and a license payment.

First quarter 1994 income before income taxes increased to \$7.1 million from \$1.6 million in first quarter 1993 due primarily to the improved gross margin. Income taxes were provided for at an effective rate of 21.7% of pre-tax income in first quarter 1994 compared to 25.9% in first quarter 1993 and 16.2% for all of 1993. First quarter earnings per share were \$0.35 in 1994 compared to \$0.07 in 1993.

Financial Condition

Net cash provided from operating activities was \$10.4 million during first quarter 1994 as compared to \$0.7 million in the 1993 comparable period.

Capital expenditures for property, plant and equipment amounted to \$3.6 million during first quarter 1994 and are expected to total \$20 million for the year. A higher level of spending will

occur during second quarter 1994 for a project to extend the life and capacity of the tailings pond at the Company's Utah extraction facility.

Total debt increased by \$1.7 million during first quarter 1994. All of the increase was in the international subsidiaries and includes exchange rate movements. Long-term debt at the end of the quarter was 12% of total capital.

Exhibits to Part I

1. Computation of Per Share Earnings

PART I
EXHIBIT 1

BRUSH WELLMAN INC. AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS

	FIRST QUARTER ENDED	
	April 3, 1994	April 4, 1993
Primary:		
Average shares outstanding	16,087,928	16,086,779
Dilutive stock options based on the treasury stock method using average market price	44,950	31,415
TOTALS	16,132,878 =====	16,118,194 =====
Net Income	\$ 5,594,000	\$ 1,154,000
Per share amount	\$.35 =====	\$.07 =====
Fully diluted:		
Average shares outstanding	16,087,928	16,086,779
Dilutive stock options based on the treasury stock method using period-end market price, if higher than the average market price	69,288	31,415
TOTALS	16,157,216 =====	16,118,194 =====
Net Income	\$ 5,594,000	\$ 1,154,000
Per share amount	\$.35 =====	\$.07 =====

PART II OTHER INFORMATION

BRUSH WELLMAN INC. AND SUBSIDIARIES

Item 1. LEGAL PROCEEDINGS

(a) Asbestos Exposure Claims A subsidiary of the Company (the "Subsidiary") is a co-defendant in twenty-eight cases making claims for asbestos-induced illness allegedly relating to the former operations of the Subsidiary, then known as The S. K. Wellman Corp. Twenty-three of these cases have been reported in prior filings with the S.E.C. The Subsidiary is one of a large number of defendants in each case. The plaintiffs seek compensatory and punitive damages, in most cases of unspecified sums. Each case has been referred to a liability insurance carrier for defense. With respect to those referrals on which a carrier has acted to date, a carrier has accepted the defense of the actions, without admitting or denying liability. Two hundred and six similar cases previously reported have been dismissed or disposed of by pre-trial judgment, one by jury verdict of no liability and ten others by settlement for nominal sums. The Company believes that resolution of the pending cases referred to above will not have a material effect upon the Company.

The Subsidiary has entered into an agreement with the predecessor owner of its operating assets, Pneumo Abex Corporation (formerly Abex Corporation), and five insurers, regarding the handling of these cases. Under the agreement, the insurers share expenses of defense, and the Subsidiary, Pneumo Abex Corporation and the insurers share payment of settlements and/or judgments. Certain expenses of handling the cases are also subject to a limited, separate reimbursement agreement with Pneumo Abex Corporation. In eleven of the

pending cases, both expenses of defense and payment of settlements and/or judgments are subject to a limited, separate reimbursement agreement with MLX Corp., the parent of the company that purchased the Subsidiary's operating assets in 1986.

(b) Claims Concluded Since the End of Fourth Quarter 1993 Since the end of fourth quarter 1993, the following proceeding was concluded:

Alfred L. Haynes and his wife filed suit against the Company and several other defendants in the United States District Court for the Eastern District of Tennessee, for which service of process on the Company occurred on September 28, 1992. Mr. Haynes claimed that, while he was an employee of an alleged customer of the Company, he contracted chronic beryllium disease as a result of exposure to beryllium and beryllium-containing products. Mr. Haynes sought compensatory damages in the amount of \$5 million; his wife claimed damages of \$1.5 million for loss of consortium. Both plaintiffs sought punitive damages in the amount of \$3 million. On April 30, 1994, the Court granted the Company's motion for dismissal on summary judgment. Although plaintiffs are not expected to appeal, no such appeal need occur until the case is resolved as to the other defendants.

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

(a) The Company's Annual Meeting of Shareholders for 1994 was held on May 3, 1994.

(b) Not applicable.

(c) At the Annual Meeting, four directors were elected to serve for a term of three years by the following vote:

	Shares Voted "For"	Shares Voted "Withheld"
	-----	-----
Gordon D. Harnett	13,447,918	95,225
William P. Madar	13,460,185	82,958
Robert M. McInnes	13,458,562	84,581
Henry G. Piper	13,426,436	116,707

The selection of Ernst & Young as independent auditors for 1994 was ratified and approved by the following vote:

Shares Voted "For"	Shares Voted "Against"	Shares Voted "Abstaining"	Non-voting Shares
-----	-----	-----	-----
13,473,257	40,857	29,029	-0-

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11. Statement re computation of per share earnings (filed as Exhibit 1 to Part I of this report)

(b) Reports on Form 8-K There have been no reports on Form 8-K during the quarter ended April 3, 1994.

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.

BRUSH WELLMAN INC.

Dated: May 9, 1994

/s/ CLARK G. WAITE

*Clark G. Waite, Sr. Vice
President, Finance and Administration,
and Chief Financial Officer*

INDEX TO EXHIBITS

Exhibit Number -----	Description of Exhibit -----	Sequential Page Number -----
11	Statement re: computation of per share earnings (filed as Exhibit 1 to Part I of this report)	11

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End of Filing

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