

BRUSH WELLMAN INC

FORM 10-Q (Quarterly Report)

Filed 8/13/1996 For Period Ending 6/28/1996

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)

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

For the quarterly period ended June 28, 1996

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)

17876 ST. CLAIR AVENUE, CLEVELAND, OHIO
(Address of principal executive offices)

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

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 X No

As of August 2, 1996 there were 15,877,063 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 June 28, 1996 are as follows:

Consolidated Statements of Income - Three months ended June 28, 1996 and July 2, 1995

Consolidated Balance Sheets -
June 28, 1996 and December 31, 1995

Consolidated Statements of Cash Flows - Three months ended June 28, 1996 and July 2, 1995

Notes to consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)	SECOND QUARTER ENDED		FIRST HALF ENDED	
	JUNE 28 1996	JULY 2 1995	JUNE 28, 1996	JULY 2, 1995
NET SALES	\$ 104,349	\$ 97,283	\$ 198,150	\$ 196,194
COST OF SALES	72,700	70,042	141,708	141,581
GROSS PROFIT	31,649	27,241	56,442	54,613
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES	16,968	15,754	32,448	31,262
RESEARCH AND DEVELOPMENT EXPENSES	2,363	1,996	4,161	3,816
OTHER-NET	(339)	84	(464)	380
OPERATING PROFIT	12,657	9,407	20,297	19,155
INTEREST EXPENSE	396	349	681	861
INCOME BEFORE INCOME TAXES	12,261	9,058	19,616	18,294
INCOME TAXES	4,117	2,382	6,316	4,830
NET INCOME	\$ 8,144	\$ 6,676	\$ 13,300	\$ 13,464
PER SHARE OF COMMON STOCK:	\$ 0.51	\$ 0.40	\$ 0.83	\$ 0.82
CASH DIVIDENDS PER COMMON SHARE	\$ 0.10	\$ 0.08	\$ 0.20	\$ 0.16
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	16,071,742	16,503,398	16,115,593	16,483,041

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(DOLLARS IN THOUSANDS)	JUN. 28, 1996	DEC. 31, 1995

ASSETS		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	\$22,136	\$29,553
ACCOUNTS RECEIVABLE	65,552	52,532
INVENTORIES	92,478	92,727
PREPAID EXPENSES AND OTHER		
CURRENT ASSETS	17,139	16,935
	-----	-----
TOTAL CURRENT ASSETS	197,305	191,747
OTHER ASSETS	18,565	18,912
PROPERTY, PLANT AND EQUIPMENT	385,392	374,367
LESS ALLOWANCES FOR DEPRECIATION, DEPLETION AND IMPAIRMENT	265,747	253,173
	-----	-----
PROPERTY, PLANT AND EQUIPMENT - NET	119,645	121,194
	-----	-----
	\$335,515	\$331,853
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
SHORT-TERM DEBT	\$21,363	\$22,757
ACCOUNTS PAYABLE	10,053	8,772
OTHER LIABILITIES AND ACCRUED		
ITEMS	24,417	23,734
DIVIDENDS PAYABLE		1,621
INCOME TAXES	11,074	9,707
	-----	-----
TOTAL CURRENT LIABILITIES	66,907	66,591
OTHER LONG-TERM LIABILITIES	4,245	4,148
RETIREMENT AND POST-EMPLOYMENT BENEFITS	41,833	41,297
LONG-TERM DEBT	16,621	16,996
DEFERRED INCOME TAXES	1,273	2,519
SHAREHOLDERS' EQUITY	204,636	200,302
	-----	-----
	\$335,515	\$331,853
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	FIRST HALF ENDED	
	JUNE 28, 1996	JULY 2, 1995
(Dollars in thousands)		

NET INCOME	\$13,300	\$13,464
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH		
PROVIDED FROM OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	9,898	10,051
Amortization of mine development	3,548	951
Decrease (Increase) in accounts receivable	(13,838)	(6,560)
Decrease (Increase) in Inventory	309	(1,055)
Decrease (Increase) in prepaid and other current assets	(356)	(889)
Increase (Decrease) in accounts payable and accrued expenses	2,426	67
Increase (Decrease) in interest and taxes payable	1,468	1,647
Increase (Decrease) in deferred income tax	(1,246)	(523)
Increase (Decrease) in other long-term liabilities	718	1,130
Other - net	(84)	(97)
	-----	-----
NET CASH PROVIDED FROM OPERATING ACTIVITIES	16,143	18,186
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchase of property, plant and equipment	(11,555)	(9,838)
Payments for mine development	(277)	(515)
Proceeds from other investments	700	668
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(11,132)	(9,685)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of short-term debt	1,164	
Repayment of short-term debt	(1,819)	(2,347)
Repayment of long-term debt	(340)	(393)
Issuance of Common Stock under stock option plans	1,097	987
Purchase of Common Stock for treasury	(6,656)	
Payments of dividends	(4,771)	(3,876)
	-----	-----
NET CASH PROVIDED USED IN FINANCING ACTIVITIES	(11,325)	(5,629)
Effects of Exchange Rate Changes	(1,103)	1,221
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,417)	4,093
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	29,553	20,441
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$22,136	\$24,534
	=====	=====

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
June 28, 1996

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 June 28, 1996 and December 31, 1995 and the results of operations for the the three months ended June 28, 1996 and July 2, 1995.

NOTE B - INVENTORIES

(Dollars in thousands)	June 28, 1996	Dec. 31, 1995

Principally average cost:		
Raw materials and supplies	\$23,424	\$19,719
In Process	53,132	57,012
Finished	43,229	42,223
	-----	-----
	119,785	118,954
Excess of average cost over LIFO inventory value	27,307	26,227
	-----	-----
	\$92,478	\$92,727
	=====	=====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
RESULTS OF OPERATIONS

Sales were a record \$104 million in the second quarter 1996, a 7% improvement over the \$97 million in sales generated in the second quarter 1995. Strong domestic demand for Alloy and Specialty System Products in the telecommunications and consumer products markets fueled the increase. International sales of \$24 million were only 23% of total sales in the current quarter as compared to \$37 million, or 38% of total second quarter 1995 sales. Weaker demand in key markets, coupled with the stronger dollar, caused the decrease in international sales.

Worldwide sales of Alloy Products increased in the second quarter of 1996 over the second quarter 1995. Domestic sales of bulk products, which are used in the aerospace, welding, plastic tooling and consumer products industries, increased significantly as a result of customers substituting the Company's higher performing alloys into their existing applications. Domestic sales of precision strip, used primarily in the telecommunications, automotive and computer markets, were slightly higher in the current quarter versus the prior year quarter. International sales of Alloy Products declined from the prior year due to increased competition from alternative metals and poor economic conditions in various markets served. Sales declines have been experienced in portions of Western Europe and the Pacific rim. The stronger dollar had an unfavorable comparative impact on the translated value of foreign currency sales as well. The pass-through effect of lower commodity costs, primarily copper, negatively impacted sales as compared to the year ago period.

Beryllium Products sales were slightly less in the second quarter 1996 than the second quarter 1995. Equipment is scheduled to be placed in service in the third quarter that is designed to

lower the production costs and increase the capacity of E material and AlBeMet(R) products used in avionics and related electronic packaging applications.

The Company is vigorously pursuing its legal rights to have injurious unfair trade practice addressed by the appropriate enforcement authorities. Brush Wellman filed an anti-dumping petition with the U.S. Department of Commerce, International Trade Administration and the U.S. International Trade Commission on March 14, 1996, alleging that imports of beryllium metal and high-beryllium alloys from Kazakhstan are being sold at less than fair value and are causing material injury to a domestic industry. In April, the U.S. Department of Commerce initiated an investigation and the International Trade Commission rendered a preliminary affirmative determination that there is a reasonable indication that imported beryllium from Kazakhstan caused material injury to the U.S. beryllium industry. The Commerce Department is now investigating whether the imported materials have been dumped -- sold at less than fair value. A preliminary determination is expected from the Commerce Department by late summer. Final decisions could be issued as early as the end of 1996.

Ceramic sales declined in the second quarter 1996 as compared to the year ago period. Sales into the telecommunications market suffered as several key customers experienced delays on shipments of their products. Direct bond copper sales are flat with the prior year.

Specialty Metal Systems continued to perform well as sales in the quarter improved over the comparable period last year. Inlay/roll, plating and cerdip products all showed increases. Telecommunications and automotive are key markets for these products. Overseas opportunities for these products continue to increase as well.

Sales of Precious Metal Products were lower in the second quarter 1996 as compared to last year as a result of a customer's re-design of a major microprocessor application to an

alternative material in May 1995. Beginning with the third quarter 1996, quarterly comparisons of Precious Metal Products will be based on the same product mix. Continued development of new products and applications, particularly vapor deposition targets and fine wire, have served to offset a large portion of these lost sales.

Gross profit of \$31.7 million or 30% of sales in the second quarter 1996 rose from \$27.2 million or 28% of sales in the second quarter 1995. A favorable sales mix caused by an increase in sales of certain higher margin Alloy Products contributed to the improvement as did productivity gains and operating efficiencies generated at the Company's larger facilities.

Sales for the first half of 1996 were \$198 million, a slight improvement over 1995. Increased sales of Alloy Products and Special Metal Systems offset lower sales of other products. International sales were also down in 1996, accounting for 26% of total sales as compared to 37% of sales in 1995. Gross margin improved slightly to 28.5% from 27.8%. The factors affecting the second quarter margins also apply to the first half results.

Selling, administrative and general expenses were \$16.9 million or 16% of sales in the second quarter 1996 compared to \$15.8 million or 16% of sales in the second quarter 1995. Year-to-date expenses were \$32.4 million in 1996 and \$31.3 million in 1995. Expenses in both years were 16% of sales. A portion of the increase is attributable to the cost of a reorganized function responsible for the sales and production planning and control and distribution of inventory. The incentive compensation accrual was larger in 1996 than last year.

Research and Development (R&D) expenses were \$2.4 million in the second quarter 1996 versus \$2.0 million in the second quarter 1995. For the first half of 1996, R&D expenses were \$4.2 million, or 2.1% of sales, a \$0.3 million increase over the first half 1995. The increase is

primarily due to development work on lower cost, higher quality copper alloys and the higher manpower costs from an internal reorganization.

Other net income was \$0.3 million in the second quarter 1996 versus other net expense of \$0.1 million in the comparable period last year. For the year, other net income was \$0.5 million in 1996 compared to an other net expense of \$0.4 million in 1995. An increase in foreign currency hedge gains is the major difference.

Second quarter 1996 interest expense was flat with the second quarter 1995. Overall debt levels have not changed significantly between the periods. Year-to-date interest is slightly lower in 1996 than 1995.

Income before income taxes was \$12.3 million in the second quarter 1996, a substantial improvement over the \$9.1 million earned in the comparable period last year. The contribution from the record sales and an improvement in margins more than offset the increase in expenses. Income taxes were provided for at 33.6% of pre-tax income in the second quarter and 32.2% for the first half 1996. For the first half 1995, a rate of 26.4% was employed. Higher earnings, an increase in the effective foreign tax rates and a decrease in various book versus tax adjustments contributed to the difference. Earnings per share were \$0.51 for the second quarter and \$0.83 for the first half 1996 compared to \$0.40 and \$0.82 in the respective periods in 1995.

FINANCIAL CONDITION

Net cash provided from operating activities was \$16 million during the first half 1996 as compared to \$18 million in the first half 1995.

Accounts receivable increased \$13 million, or 25%, since December 1995, resulting from significantly higher sales in May and June 1996 as compared to the last several months of 1995. The average collection period has improved slightly.

Inventories have remained flat during the year despite the sales increase due, in part, to favorable valuation adjustments.

Capital expenditures for property, plant and equipment amounted to \$12 million during the first half of 1996. In April 1996, the Company announced plans to spend on the order of \$110 million to modernize its Alloy manufacturing operations. It is anticipated that the funds will be expended over three years. Pre-engineering and vendor qualification work is underway. The project may be funded by a combination of debt, leases and cash flow. In August 1996, the Company announced plans to produce a family of specialty alloys in rod, bar and tube form at a new facility. It is anticipated that the facility, including working capital, will cost in excess of \$10 million and be completed in mid-1997. Funds were also expended this year on the new rod mill for the Elmore, Ohio facility and a plating line at the Lincoln, Rhode Island facility.

The Company purchased 359,000 shares of its Common Stock at a cost of \$6.7 million during 1996 under a program authorized by the Board of Directors late last year. Dividends paid were \$4.8 million for the first half 1996.

Total debt decreased \$1.8 million since year-end 1995 as foreign currency borrowings used to hedge foreign currency denominated assets declined. Long-term debt was 7% of total capital at the end of the second quarter 1996 as compared to 8% at year-end 1995.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

BERYLLIUM EXPOSURE CLAIMS

RECENT DEVELOPMENTS RELATING TO PENDING CLAIMS SINCE THE END OF FIRST

QUARTER 1996.

The Company and certain of its present and past Directors were defendants in a class action suit filed on April 2, 1996 in the Court of Common Pleas for Cuyahoga County, Ohio, by Christine A. Toth, a former employee of the Company, and her husband on behalf of a putative class of all current and former employees of the Company from 1949 to date of the suit. This claim was disclosed in the Company's quarterly report on Form 10-Q for the quarter ended March 29, 1996. The plaintiffs claimed, INTER ALIA, that defendants committed an intentional tort by misleading the Company's employees and the public about the efficacy and adequacy of the standard adopted by the Occupational Safety and Health Administration (OSHA) with respect to exposure to airborne beryllium to protect employees from chronic beryllium disease and by making misrepresentations to employees and the public about the risks of such exposure in the work place. Plaintiffs also alleged that defendants have deliberately withheld or concealed material information about the effects of such exposure to airborne beryllium. Plaintiffs sought compensatory damages in the amount of \$100 million and punitive damages in the amount of \$200 million together with certain injunctive relief. On July 12, 1996, the Court granted the Company's motion to dismiss the complaint. The time limit for filing an appeal from the Court's judgment has not yet expired.

In August 1993, the Company had notified the State Compensation Fund, a workers' compensation fund in the State of Arizona, of the filing of employee suits and had requested that the State Compensation Fund defend such suits pursuant to the Company's State Compensation Fund policies. The State Compensation Fund had denied coverage and

defense of such suits, but after discussion, had indicated that it would defend some of the employee lawsuits under a reservation of rights. The State Compensation Fund had filed suit against the Company and certain of its employees in the Supreme Court of Pima County, Arizona, for which service of process on the Company occurred on August 21, 1995. This claim was disclosed in the Company's annual report on Form 10-K for the year ended December 31, 1995. In view of the dispute with respect to defense and indemnity, the State Compensation Fund had filed a declaratory judgment action. The Company had filed an answer and counterclaim. On May 13, 1996, the Court entered an order granting the State Compensation Fund's two motions for partial summary judgment, which had sought a declaration of no duty to defend or indemnify the Company against claims for breach of contract and claims for intentional tort. These rulings did not completely dispose of the State Compensation Fund's claims, and did not address the Company's counterclaim. Defense of this case is being conducted by counsel retained by the Company.

CLAIMS INITIATED SINCE THE END OF FIRST QUARTER 1996. As previously reported in the Company's annual report on Form 10-K for the year ended December 31, 1995, the Company and certain of its employees are defendants in separate suits filed by Company employees and their spouses against the Company and certain Company employees in the Superior Court of Pima County, Arizona. The plaintiffs claim that during their employment with the Company they contracted chronic beryllium disease as a result of exposure to beryllium and beryllium-containing products. The plaintiffs seek compensatory and punitive damages of an unspecified amount based on allegations that the Company intentionally misrepresented the potential danger of exposure to beryllium and breached an agreement to pay certain benefits in the event the plaintiffs contracted chronic beryllium disease. On July 5, 1996, Rudy Gamez, an employee of the Company, filed a suit against the Company in the Superior Court of Pima County, Arizona, based on similar claims and seeking similar relief. Defense of these cases is

being conducted by counsel retained by the Company. The Company believes that resolution of these cases will not have a material effect on the Company.

In two cases brought by the Company's current employees and filed in the Court of Common Pleas for Cuyahoga County, Ohio, on August 1, 1995 and November 1, 1995 respectively, the employees have alleged that they contracted chronic beryllium disease as a result of exposure to beryllium or beryllium dust. The complaints include claims by the employees for employer intentional tort, fraud and misrepresentation and claims by family members for loss of consortium. The plaintiffs seek compensatory damages in excess of \$25,000 and punitive damages in excess of \$25,000. These complaints were disclosed in the Company's annual report on Form 10-K for the year ended December 31, 1995. On July 12, 1996, Belve Damron, an employee of the Company, and his spouse, Annabelle Damron, have filed a suit against the Company in the Court of Common Pleas for Cuyahoga County, Ohio. The claims in this third case are similar to the claims in the two earlier cases, and similar relief is sought. The defense of these cases is being conducted by counsel selected by the Company, and retained by the Company and by the Company's insurance carriers, with certain reservation of rights. A motion to dismiss the complaint in the first case was granted in part and denied in part on January 18, 1996. Plaintiffs then filed an amended complaint. The Company's motion to dismiss this amended complaint was denied on April 26, 1996. The Company's motion to dismiss an amended complaint in the second case was denied on July 15, 1996. The Company has not yet filed a response to the complaint in the third case. The Company continues to believe that resolution of these cases will not have a material effect on the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

11. Statement re: computation of per share earnings.

27. Financial Data Schedule.

(b) REPORTS ON FORM 8-K

There have been no reports on Form 8-K during the quarter ended June 28, 1996.

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: August 12, 1996

/s/ Carl Cramer

Carl Cramer
Vice President Finance and
Chief Financial Officer

EXHIBIT 11

BRUSH WELLMAN INC. AND SUBSIDIARIES

COMPUTATION OF PER SHARE EARNINGS

	SECOND QUARTER ENDED		SIX MONTHS ENDED	
	June 28 1996 ----	July 2 1995 ----	June 28 1996 ----	July 2 1995 ----
Primary:				
Average shares outstanding	15,872,613	16,199,937	15,912,605	16,174,254
Dillutive stock options based on the treasury stock method using average market price	173,915	261,874	177,027	193,212
	-----	-----	-----	-----
TOTALS	16,046,528	16,461,811	16,089,632	16,367,466
	=====	=====	=====	=====
Net Income	\$8,144,000	\$6,676,000	\$13,299,000	\$13,464,000
Per share amount	\$0.51	\$0.41	\$0.83	\$0.82
	=====	=====	=====	=====
Fully diluted:				
Average shares outstanding	15,872,613	16,199,937	15,912,605	16,174,254
Dillutive stock options based on the treasury stock method using average market price	199,129	303,461	202,988	308,787
	-----	-----	-----	-----
TOTALS	16,071,742	16,503,398	16,115,593	16,483,041
	=====	=====	=====	=====
Net Income	\$8,144,000	\$6,676,000	\$13,299,000	\$13,464,000
Per share amount	\$0.51	\$0.40	\$0.83	\$0.82
	=====	=====	=====	=====

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	JUN 28 1996
CASH	22,136
SECURITIES	0
RECEIVABLES	65,552
ALLOWANCES	967
INVENTORY	92,478
CURRENT ASSETS	197,305
PP&E	385,392
DEPRECIATION	265,747
TOTAL ASSETS	335,515
CURRENT LIABILITIES	66,907
BONDS	16,621
COMMON	21,492
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	183,144
TOTAL LIABILITY AND EQUITY	335,515
SALES	198,150
TOTAL REVENUES	198,150
CGS	141,708
TOTAL COSTS	178,317
OTHER EXPENSES	(490)
LOSS PROVISION	26
INTEREST EXPENSE	681
INCOME PRETAX	19,616
INCOME TAX	6,316
INCOME CONTINUING	13,300
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	13,300
EPS PRIMARY	.83
EPS DILUTED	.83

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