

BRUSH WELLMAN INC

FORM 10-Q (Quarterly Report)

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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 July 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 August 1, 1994 there were 16,098,415 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 July 3, 1994 are as follows:

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

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

Consolidated Statements of Cash Flows - Six months ended July 3, 1994 and
July 4, 1993.

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	
	July 3, 1994	July 4, 1993	July 3, 1994	July 4, 1993
Net sales	\$86,560	\$70,852	\$171,354	\$140,232
Costs and expenses:				
Cost of sales	61,567	55,263	123,168	108,798
Selling, administrative and general expenses	13,121	11,946	25,739	23,566
Research and development expenses	2,189	1,815	4,376	3,581
Interest expense	449	824	920	1,679
Other-net	1,063	923	1,836	959
	78,389	70,771	156,039	138,583
Income before income taxes	8,171	81	15,315	1,649
Income taxes	2,279	(76)	3,828	337
Net Income	\$5,892	\$157	\$11,487	\$1,312
	=====	=====	=====	=====
Per Share of Common Stock:	\$0.36	\$0.01	\$0.71	\$0.08
Cash dividends per common share	\$0.05	\$0.05	\$0.10	\$0.10
Weighted average number of common shares outstanding	16,204,652	16,087,470	16,165,713	16,101,599

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

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

Assets		
Current Assets		
Cash and cash equivalents	\$17,838	\$7,690
Accounts receivable	56,147	46,462
Inventories	86,285	86,477
Prepaid expenses and other current assets	15,990	15,595
	-----	-----
Total Current Assets	176,260	156,224
Other Assets	15,932	16,231
Property, Plant and Equipment	346,307	337,342
Less allowances for depreciation, depletion and impairment	227,986	218,416
	-----	-----
	118,321	118,926
Goodwill	1,873	1,991
	-----	-----
	\$312,386	\$293,372
	=====	=====
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt	\$17,594	\$16,263
Accounts payable	7,801	5,427
Other liabilities and accrued items	24,457	20,822
Dividends payable	-	804
Income taxes	10,025	7,636
	-----	-----
Total Current Liabilities	59,877	50,952
Other Long-Term Liabilities	41,508	40,664
Long-Term Debt	23,929	24,000
Deferred Income Taxes	4,959	5,682
Shareholders' Equity	182,113	172,074
	-----	-----
	\$312,386	\$293,372
	=====	=====

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	First Half Ended	
	JULY 3, 1994	July 4, 1993
(Dollars in thousands)		
NET INCOME	\$11,487	\$1,312
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH		
Provided From Operating Activities:		
Depreciation, depletion and amortization	9,270	9,700
Amortization of mine development	721	1,755
Decrease (Increase) in accounts receivable	(8,291)	(7,709)
Decrease (Increase) in Inventory	192	1,941
Decrease (Increase) in prepaid and other current assets	(301)	1,186
Increase (Decrease) in accounts payable and accrued expenses	5,217	(1,406)
Increase (Decrease) in interest and taxes payable	1,757	(1,037)
Increase (Decrease) in deferred income tax	(723)	(1,334)
Other - net	739	114
Net Cash Provided From Operating Activities	20,068	4,522
Cash Flows from Investing Activities:		
Payments for purchase of property, plant and equipment	(8,911)	(4,197)
Payments for mine development	(253)	(428)
Payments for purchase of business	-	186
Net Cash Provided From (Used in) Investing Activities	(9,164)	(4,439)
Cash Flows from Financing Activities:		
Proceeds from (Repayment of) short-term debt - net	618	(571)
Proceeds from issuance of long-term debt	-	706
Repayment of long-term debt	(344)	-
Issuance of Common Stock under stock option plans	162	10
Payments of dividends	(2,414)	(3,378)
Net Cash Provided From (Used in) Financing Activities	(1,978)	(3,233)
Effects of Exchange Rate Changes	1,222	995
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,148	(2,155)
Cash and Cash Equivalents at Beginning of Period	7,690	4,190
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$17,838	\$2,035
	=====	=====

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

July 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 July 3, 1994 and December 31, 1993 and the results of operations for the the three and six months ended July 3, 1994 and July 4, 1993.

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

Principally average cost:		
Raw materials and supplies	\$20,909	\$19,431
In Process	45,897	50,349
Finished	37,751	33,720
	-----	-----
	104,557	103,500
Excess of average cost over		
LIFO inventory value	18,272	17,023
	-----	-----
	\$86,285	\$86,477
	=====	=====

ITEM 2. Management's Discussion and Analysis

Results of Operations

Second quarter 1994 sales of \$87 million represents an increase of 22% over the \$71 million recorded in second quarter 1993. All five product lines experienced gains with beryllium alloys and precious metal products being the largest contributors. International sales were \$26 million and comprised 30% of total sales in second quarter 1994 compared to \$20 million or 28% of total sales in second quarter 1993.

Sales of beryllium alloys increased significantly in second quarter 1994 from the year ago period. Market development efforts, coupled with continued economic strength, account for the sales increase. The strong U.S. automotive and telecommunications markets are the key sales growth areas for beryllium alloys. Alloy international sales in second quarter 1994 also increased significantly from the year ago period as a result of application development efforts and improved economic conditions in Europe. We expect favorable sales comparisons for the rest of 1994.

Beryllium sales increased slightly from the year ago period. The second quarter included most of the final shipments on the Defense Logistics Agency (DLA) supply contract. Substantially lower 1994 second half sales are expected in this product line.

Beryllia ceramic sales were up slightly in second quarter 1994 as compared to second quarter 1993. Continued strong U.S. automotive and telecommunications equipment

demands offset the decline in defense applications. New products based on direct bond copper technology are now in production.

Specialty metal systems sales increased in second quarter 1994 as compared to second quarter 1993. The continued strength in the automotive, telecommunications, computer and semiconductor industries is generating increased demand. Application development efforts are aimed at further penetrating these markets.

Sales of precious metals products were up significantly in second quarter 1994 over the comparable 1993 period. High demand for frame lid assemblies from semiconductor manufacturers, along with increasing sales of vapor deposition targets, accounted for much of the increase. We anticipate that the current high sales level should continue in the second half of 1994.

Gross margin (sales less cost of sales) increased to 28.9% of sales in second quarter 1994 as compared to 22.0% of sales in second quarter 1993. Higher sales and production volumes of beryllium alloys, together with improved margins in the beryllium product line, account for much of the improvement. As with the first quarter comparisons, the beryllium alloys product line has been experiencing lower unit costs from higher throughput and has benefited from manufacturing improvements, especially in strip products. The beryllium product line enjoyed a favorable product mix in second quarter 1994. However, the major reason for improvement was that second quarter 1993 was negatively impacted by manufacturing problems with the AlBeMet(R) disk drive component.

The ceramic product line is transferring its direct bond copper production from a Syracuse, New York facility to the Newburyport, Massachusetts plant. A provision of \$600 thousand was recorded in second quarter 1994 to cover employee relocation, severance and training, equipment relocation and some asset abandonments.

Sales for first half 1994 were \$171 million, a 22% increase over the \$140 million attained in first half 1993. Increases occurred in beryllium alloys, specialty metal systems, and precious metal products. First half 1994 gross margin was 28.1% of sales compared to 22.4% in 1993. The factors affecting second quarter gross margin also apply to first half performance.

Selling, administrative and general expenses were \$13.1 million or 15.2% of sales, up from \$11.9 million or 16.9% of sales in second quarter 1993. For the first half, these expenses totaled \$25.7 million compared to \$23.6 million in the prior year. The increase resulted from higher marketing, selling and distribution expenses and an increased accrual for incentive compensation.

Research and development (R&D) expenses in second quarter and first half 1994 exceeded the comparable 1993 periods by more than 20%. This increase was mainly in beryllium products where efforts are focused on new product development, especially in AlBeMet(R) materials. R & D expenses for the year 1994 are expected to exceed \$8 million as compared to \$7.1 million during 1993.

Interest expense fell substantially in second quarter and first half 1994 as compared to 1993, due principally to lower average debt outstanding.

Other-net expense was \$1.1 million in the second quarter and \$1.8 million for the half compared to \$0.9 million and \$1.0 million in the corresponding 1993 periods. This category includes non-operating items such as currency exchange and translation effects, interest income and amortization of goodwill. First half 1993 included \$0.7 million of non-recurring gains from a contract settlement and a license payment.

Income before taxes was \$8.2 million in second quarter 1994 and \$15.3 million for the half. The comparable 1993 results were \$0.1 million and \$1.6 million. The higher sales volume and related gross margin improvements account for the increase. Income taxes were provided for at an effective rate of 25% of pre-tax income for the first half, resulting in a 28% rate for the second quarter. For the first half 1993, an effective tax rate of 20% was employed.

Earnings per share were \$0.36 in the second quarter and \$0.71 for the first half compared to \$0.01 and \$0.08 in 1993.

Financial Condition

Net cash provided from operating activities was \$20.1 million during first half 1994 as compared to \$4.5 million in the comparable 1993 period.

During the first half accounts receivable increased \$9.7 million or 21%, which is in line with the 22% increase in sales. Total inventories are virtually unchanged. The beryllium product line inventories have been reduced to correspond to the expected lower sales. The beryllium alloy product line inventories have increased based on the higher sales

levels and a seasonal increase in finished goods in preparation for plant shutdowns for maintenance, primarily the Reading, Pennsylvania finishing mill.

Capital expenditures for property, plant and equipment amounted to \$8.9 million during first half 1994 and are expected to total \$17 million for the year.

Total debt increased by \$1.3 million during first half 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

BRUSH WELLMAN INC. AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS

	SECOND QUARTER ENDED		SIX MONTHS ENDED	
	July 3, 1994	July 4, 1993	July 3, 1994	July 4, 1993
Primary:				
Average shares outstanding	16,093,442	16,087,411	16,090,655	16,087,090
Dilutive stock options based on the treasury stock method using average market price	111,210	42	75,058	14,509
TOTALS	16,204,652 =====	16,087,453 =====	16,165,713 =====	16,101,599 =====
Net Income	\$ 5,892,000	\$ 1,158,000	\$11,487,000	1,312,000
Per share amount	\$ 0.36	\$ 0.01	\$ 0.71	\$ 0.08
Fully Diluted:				
Average shares outstanding	16,093,442	16,087,411	16,090,655	16,087,090
Dilutive stock options based on the treasury stock method using year- end market price if higher than average market price	111,210	59	75,058	14,509
TOTALS	16,204,652 =====	16,087,470 =====	16,165,713 =====	16,101,599 =====
Net Income	\$ 5,892,000	\$ 158,000	\$11,487,000	\$ 3,312,000
Per share amount	\$ 0.36	\$ 0.01	\$ 0.71	\$ 0.08

PART II OTHER INFORMATION

BRUSH WELLMAN INC. AND SUBSIDIARIES

Item 1. LEGAL PROCEEDINGS

(a) Legal Proceedings Initiated Since the End of First Quarter 1994

(i) Troy Murphy Morgan, Corky Dean McCarter and his wife Karen Denise Smith McCarter, Richard Emory Myers, Sr. and his wife Wilma Dean Kennedy Myers and Kathlene Beatty jointly filed suit against the Company and two other defendants in the United States District Court for the Eastern District of Tennessee on June 24, 1994. Service of process on the Company occurred on July 5, 1994. Messrs. Morgan, McCarter and Myers and Ms. Beatty claim that, while they were employees of an alleged customer of the Company, they contracted chronic beryllium disease as a result of exposure to beryllium and beryllium-containing products. Ms. McCarter and Ms. Myers are claiming loss of consortium. The plaintiffs' aggregate claim for relief, which includes compensatory and punitive damages, totals \$19 million. Defense of this case is being conducted by counsel selected by the Company. It is anticipated that such counsel will be retained by the Company's insurance carrier.

(ii) Esmeralda Mendoza, on her own behalf and on behalf of the estate of her husband Phillip Mendoza, filed suit against the Company in the Court of Common Pleas of Ottawa

County, Ohio on June 27, 1994. Service of process on the Company occurred on July 7, 1994. The complaint alleges that, while he was an employee of the Company, Mr. Mendoza contracted chronic beryllium disease as a result of exposure to beryllium dust. The claim is premised on a theory of intentional tort. The estate of Mr. Mendoza seeks \$500,000 in compensatory damages and \$500,000 in punitive damages; Ms. Mendoza seeks damages for loss of consortium in the amount of \$250,000. Defense of this case is being conducted by counsel retained by the Company and the Company's insurance carrier is investigating its liability for these claims.

(iii) Ursula Cruz, Javier Fimbres, Norma Flores, Robert Kofira, Rosa Maldonado and Hildegard Stoecker and their respective spouses filed separate suits against the Company and certain Company employees in the Superior Court of Pima County, Arizona on June 30, 1994. Service of process on the Company for each of the suits occurred on July 7, 1994. 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. Defense of this case is

being conducted by counsel retained by the Company and the Company's insurance carrier is investigating its liability for these claims. The Company believes that resolution of the cases referred to above will not have a material effect on the Company.

(b) Recent Developments Relating to Pending Legal Proceedings

On November 1, 1989, the Company appealed to the Ohio Environmental Board of Review (the "Board of Review") to vacate or modify certain conditions in an NPDES waste water discharge permit issued by the Ohio Environmental Protection Agency (the "Ohio EPA") for the Company's Elmore, Ohio facility. On June 30, 1994, a Settlement Agreement was filed with the Board of Review. Under the Settlement Agreement, the Ohio EPA is expected to issue a modified NPDES permit and administrative orders, following a public comment period, in September 1994. If these actions occur, the Company will be obligated to dismiss its appeal.

(c) Asbestos Exposure Claims A subsidiary of the Company (the "Subsidiary") is a co-defendant in twenty-nine 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-eight 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. A separate, limited agreement with Pneumo Abex Corporation relating to the expenses of handling the cases expired on June 30, 1994. This agreement is subject to revival, however, if either the Subsidiary or Pneumo Abex Corporation withdraws from the agreement with the five insurers referred to above. 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.

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 1 of this report)

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

/s/ Clark G. Waite

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

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