# BRUSH ENGINEERED MATERIALS INC 

FORM 8-K

(Unscheduled Material Events)

Filed 7/24/2003 For Period Ending 7/24/2003

| Address | 17876 ST. CLAIR AVE. |
| :--- | :--- |
|  | CLEVELAND, Ohio 44110 |
| Telephone | $216-383-4062$ |
| CIK | 0001104657 |
| Industry | Metal Mining |
| Sector | Basic Materials |
| Fiscal Year | $12 / 31$ |

## Washington, D.C. 20549

## FORM 8-K

## CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of report (Date of earliest event reported): July 24, 2003

## BRUSH ENGINEERED MATERIALS INC.

(Exact Name of Registrant as Specified in Charter)

```
Ohio
State of Other Juris-
Diction of Incorporation)
17876 St. Clair Avenue
(Address of Principal Executive Offices)
```

```
1-15885
(Commission
File Number)
Cleveland, Ohio
```

(Zip Code)

## Item 7. Financial Statements and Exhibits

(c) Exhibits
99.1 Press Release, dated July 24, 2003, issued by Brush Engineered Materials Inc.

## Item 9. Regulation FD Disclosure

This information is being furnished pursuant to "Item 12. Results of Operations and Financial Condition" of Form 8-K in accordance with SEC Release No. 33-8216.

On July 24, 2003, Brush Engineered Materials Inc. issued a press release announcing its second quarter 2003 results. The press release is attached hereto as Exhibit 99.1.

## 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 hereunto duly authorized.

## BRUSH ENGINEERED MATERIALS INC.

## EXHBIT 99.1

## BRUSH ENGINEERED MATERIALS INC. REPORTS POSITIVE EARNINGS ON SECOND QUARTER SALES OF \$101.8 MILLION

## RESULTS

Cleveland, Ohio -- July 24, 2003 -- Brush Engineered Materials Inc. (NYSE-BW) today reported a significant improvement in second quarter 2003 results. Net income was slightly above breakeven on sales of $\$ 101.8$ million compared to a net loss of $\$ 2.0$ million on sales of $\$ 100.8$ million for the second quarter of 2002. Diluted earnings per share was $\$ 0.00$ compared to a loss of $\$ 0.12$ per share in the second quarter of 2002. International sales were $32 \%$ of the total sales in the second quarter of 2003 , up approximately $21 \%$ as growth in the Company's Asian markets offset sluggish domestic markets.

Income (Loss) before income taxes for the quarter improved $\$ 3.6$ million compared to the second quarter of 2002. Earnings for the second quarter were positively affected by improved margins, favorable product mix and lower overhead costs. Gross margin as a percent of sales reached $18.5 \%$, an improvement of $3.5 \%$ and $1.3 \%$ respectively compared to the second quarter of 2002 and the first quarter of 2003.

For the first six months of 2003 the Company reported a net loss of $\$ 3.0$ million or $\$ 0.18$ per share diluted on sales of $\$ 201.3$ versus a net loss of $\$ 5.9$ million or $\$ 0.36$ per share on sales of $\$ 190.3$ million. Income (Loss) before income taxes year to date improved $\$ 7.0$ million over the same period last year.

The Company's diluted net loss per share comparison to the prior year is affected by its accounting for income taxes. In the fourth quarter of 2002, in accordance with SFAS No. 109, "Accounting for Income Taxes", the Company recorded a $\$ 19.9$ million charge as part of income tax expense in 2002 to establish a valuation reserve allowance for substantially all of its net deferred tax assets in recognition of uncertainty regarding full realization. The Company intends to maintain a valuation allowance on the net deferred tax assets until a full realization event occurs to support reversal of all or a portion of the reserve. Therefore, the Company's second quarter and year-to-date results include a tax provision of $\$ 0.2$ million and $\$ 0.5$ million, respectively for certain foreign, state and local taxes but do not include a federal tax provision. In the second quarter and first six months of 2002 a tax benefit of $\$ 1.3$ million and $\$ 3.7$ million were recorded which reduced the net loss in those periods.

## DEBT

The Company's cash flow continued to improve and debt was reduced further. Cash flow from operations was $\$ 7.2$ million in the first half of 2003. The Balance Sheet debt at the end of the second quarter of 2003 was down $\$ 6.6$ million from December 31, 2002.

The Company's revolving line of credit agreement is currently due to mature in April of 2004, and therefore all outstanding borrowings under the revolver are considered current debt as of April 2003. As a result, long-term borrowings of $\$ 27.0$ million under the revolver have been classified as short-term debt on the Consolidated Balance Sheet as of June 27, 2003. The Company is currently examining several refinancing alternatives.

## BUSINESS SEGMENT REPORTING

## Metal Systems Group

The Metal Systems Group consists of Alloy Products, Technical Materials, Inc. (TMI) and Beryllium Products.

The Metal Systems Group's second quarter sales of $\$ 60.7$ million were down $5 \%$ from the 2002 second quarter sales of $\$ 63.5$ million. Year-todate sales of $\$ 121.9$ million were up $2 \%$ over the first half of 2002.

The second quarter 2003 operating loss for the Metals Systems Group was $\$ 2.8$ million versus an operating loss of $\$ 5.1$ for the second quarter of 2002. The operating loss for the first six months was $\$ 6.2$ million versus a loss of $\$ 13.6$ million for the same period last year.

Alloy Products' 2003 second quarter sales of $\$ 42.1$ and year-to-date sales of $\$ 82.5$ million were up approximately $3 \%$ and $4 \%$ over the same periods last year. The sales increase is coming from the computer, automotive and appliance sectors with particular strength from Southeast Asia. Alloy is continuing to make progress with its newly introduced products including Alloy 390, moldMAX(R) XL and ToughMet(R). These new materials are targeted at increasing product offerings and opening up opportunities into other diverse markets. In addition, Alloy continues to make progress in reducing manufacturing operating costs and increasing inventory turns. Alloy Products has recently experienced a fall off in the order entry rate due in part to the customary domestic and European summer manufacturing shutdowns that occur and weakness in the automotive electronics and plastic tooling markets. Alloy is experiencing some strengthening in oil and gas and aerospace product applications.

TMI's 2003 second quarter sales of $\$ 10.6$ million were down $14 \%$ from second quarter 2002 sales of $\$ 12.4$ million. Year-to-date sales of $\$ 22.5$ million were down $6 \%$ from the first six months of 2002. TMI has been experiencing softness due to push-outs for automotive applications triggered by customer inventory corrections. TMI has scheduled a two-week manufacturing maintenance shutdown during the month of July.

Beryllium Products' second quarter sales of $\$ 7.9$ million were down $21 \%$ from the second quarter of 2002. Year-to-date sales of $\$ 16.7$ million are up $3 \%$ over the same period last year. Order entry for defense applications remains strong for the remainder of 2003.

## Microelectronics Group

The Microelectronics Group includes Williams Advanced Materials Inc. (WAM) and Electronic Products.

The Microelectronics Groups' sales for the second quarter 2003 of $\$ 37.7$ million were $8 \%$ above second quarter 2002 sales of $\$ 34.5$ million. Sales for the first six months of 2003 of $\$ 76.0$ million were $12 \%$ above the same period of 2002. Operating profit for the second quarter was $\$ 3.5$ million, up $\$ 2.0$ million compared to the second quarter of 2002. For the first six months of 2003 operating profit was $\$ 6.0$ million, up $62 \%$ or $\$ 2.3$ million compared to the first six months of 2002.

WAM's second quarter 2003 sales of $\$ 29.8$ million were up $10 \%$ above second quarter 2002 sales of $\$ 27.1$ million. Year-to-date sales of $\$ 60.3$ million were up $14 \%$ over year-to-date 2002 sales of $\$ 53.0$ million. WAM sales continue to be driven by strength from the data storage, performance film and optical media markets. It is anticipated that this sales strength will moderate in the third quarter of 2003.

Electronic Products' 2003 second quarter sales of $\$ 7.9$ million and year-to-date sales of $\$ 15.7$ million were up $7 \%$ and $4 \%$ respectively over the same periods last year. This business unit continues to benefit from the restructuring initiatives announced earlier this year.

## OUTLOOK

The Company said that forecasting sales continues to be a challenge due to weak conditions in the U.S. economy and a lack of visibility across the Company's major markets. Lead times are short, order entry has weakened in the second quarter and the Company is now entering the customary seasonal manufacturing shutdown period, adding to the forecasting challenge. The current outlook is for third quarter 2003 revenue to be flat to up $5 \%$ over third quarter 2002 sales of $\$ 93.5$ million. Sales in the second half of 2003 are expected to improve by 5 to $10 \%$ compared to the prior year second half sales of $\$ 182.5$ million.

## CHAIRMAN'S COMMENTS

Commenting on the results, Gordon D. Harnett, Chairman, President and Chief Executive Officer, stated, "I am pleased to report a slight profit for the second quarter 2003 on sales that were lower than our predicted breakeven quarterly sales of $\$ 105.0$ million. Our cost reduction efforts are having a substantial impact on our profitability. While we are disappointed in the slower than expected sales growth in the quarter, we are confident that our new growth initiatives coupled with our productivity successes will drive further profit improvement in the second half of 2003 and beyond. We remain committed to improving our bottom line and enhancing long-term shareholder value."

## FORWARD-LOOKING STATEMENTS

Portions of the content set forth in this document that are not statements of historical or current facts are forward-looking statements. The Company's actual future performance may materially differ from that contemplated by the forward-looking statements as a
result of a variety of factors. These factors include, in addition to those mentioned elsewhere herein:

- The condition of the markets which the Company serves, whether defined geographically or by segment, with the major market segments being telecommunications and computer, optical media, automotive electronics, industrial components, aerospace and defense and appliance
- Changes in product mix and the financial condition of particular customers
- The Company's success in implementing its strategic plans and the timely and successful completion of any capital expansion projects
- The availability of adequate lines of credit and the associated cost and interest rates
- Other financial factors, including tax rates, exchange rates, pension costs, energy costs and the cost and availability of insurance
- Changes in government regulatory requirements and the enactment of new legislation that impacts the Company's obligations
- The conclusion of pending litigation matters in accordance with the Company's expectation that there will be no material adverse effects

Brush Engineered Materials Inc. is headquartered in Cleveland, Ohio. The Company, through its wholly-owned subsidiaries, supplies worldwide markets with beryllium products, alloy products, electronic products, precious metal products, and engineered material systems.

## FOR FURTHER INFORMATION, PLEASE CONTACT:

## Investors:

Michael C. Hasychak
216/383-6823

## Media:

Patrick S. Carpenter
216/383-6835
http://www.beminc.com

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)
NET SALES
COST OF SALES
GROSS MARGIN
SELLING, GENERAL AND ADMINISTRATIVE
EXPENSES
RESEARCH AND DEVELOPMENT
EXPENSES
OTHER-NET
OPERATING PROFIT (LOSS)
INTEREST EXPENSE
INCOME (LOSS) BEFORE INCOME TAXES
MINORITY INTEREST
INCOME TAXES
NET INCOME (LOSS)
PER SHARE OF COMMON STOCK: BASIC
WEIGHTED AVERAGE NUMBER
OF COMMON SHARES OUTSTANDING
PER SHARE OF COMMON STOCK: DILUTED
WEIGHTED AVERAGE NUMBER
OF COMMON SHARES OUTSTANDING

|  | $\begin{aligned} & \text { SECOND } \\ & \text { JUNE } 27, \\ & 2003 \end{aligned}$ |  | ER ENDED JUNE 28, 2002 |  | FIRST H JUNE 27, 2003 | D | $\begin{gathered} \text { JUNE } 28, \\ 2002 \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 101,805 | \$ | 100,749 | \$ | 201,323 | \$ | 190,331 |
|  | 82,941 |  | 85,679 |  | 165,346 |  | 165,007 |
|  | 18,864 |  | 15,070 |  | 35,977 |  | 25,324 |
|  | 16,611 |  | 16,907 |  | 33,909 |  | 32,147 |
|  | 928 |  | 1,101 |  | 2,036 |  | 2,175 |
|  | 310 |  | (373) |  | 1,139 |  | (932) |
|  | 1,015 |  | $(2,565)$ |  | $(1,107)$ |  | $(8,066)$ |
|  | 754 |  | 767 |  | 1,443 |  | 1,500 |
|  | 261 |  | $(3,332)$ |  | $(2,550)$ |  | $(9,566)$ |
|  | (22) |  | -- |  | (22) |  |  |
|  | 246 |  | $(1,283)$ |  | 451 |  | $(3,683)$ |
| \$ | 37 | \$ | $(2,049)$ | \$ | $(2,979)$ | \$ | $(5,883)$ |
| \$ | 0.00 | \$ | (0.12) | \$ | (0.18) | \$ | (0.36) |
| 16,563,098 |  | 16,556,439 |  | $16,562,283$ |  | 16,555,553 |  |
| \$ | 0.00 | \$ | (0.12) | \$ | (0.18) | \$ | (0.36) |
|  | 16,639,382 |  | 16,556,439 |  | ,562,283 |  | 555,553 |

## SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

(DOLLARS IN THOUSANDS)
ASSETS
CURRENT ASSETS
CASH AND CASH EQUIVALENTS
ACCOUNTS RECEIVABLE
INVENTORIES
PREPAID EXPENSES
DEFERRED INCOME TAXES
TOTAL CURRENT ASSETS
OTHER ASSETS
LONG-TERM DEFERRED INCOME TAXES
PROPERTY, PLANT AND EQUIPMENT
LESS ALLOWANCES FOR DEPRECIATION,
DEPLETION AND IMPAIRMENT

| $\begin{aligned} & \text { JUNE } 27, \\ & 2003 \end{aligned}$ | $\begin{gathered} \text { DEC. } 31, \\ 2002 \end{gathered}$ |
| :---: | :---: |
| \$ 1,307 | \$ 4,357 |
| 58,329 | 47,543 |
| 89,180 | 94,324 |
| 8,306 | 9,766 |
| 193 | 244 |
| 157,315 | 156,234 |
| 25,377 | 25,629 |
| 472 | 472 |
| 480,043 | 476,283 |
| 334,091 | 323,739 |
| 145,952 | 152,544 |
| \$329,116 | \$334,879 |

LIABILITIES AND SHAREHOLDERS' EQUITY
CURRENT LIABILITIES
SHORT-TERM DEBT
ACCOUNTS PAYABLE
OTHER LIABILITIES AND ACCRUED ITEMS INCOME TAXES

TOTAL CURRENT LIABILITIES
OTHER LONG-TERM LIABILITIES
RETIREMENT AND POST-EMPLOYMENT BENEFITS LONG-TERM DEBT
MINORITY INTEREST IN SUBSIDIARY

SHAREHOLDERS' EQUITY

| $\begin{array}{r} \$ 44,710 \\ 16,217 \\ 33,854 \end{array}$ |
| :---: |
| 95,666 |
| 16,921 |
| 50,010 |
| 12,185 |
| 154,284 |
| \$329,116 |

$\$ 27,235$
15,129
30,439
786
------
73,589
17,459
48,518
36,219
---
159,094
$-=-=-=-$
$\$ 334,879$
$=======$

## SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Dollars in thousands) | $\begin{aligned} & \text { FIRST } \\ & \text { JUNE } 27 \text {, } \\ & 2003 \end{aligned}$ | $\begin{aligned} & \text { ENDED } \\ & \text { JUNE } 28 \text {, } \\ & 2002 \end{aligned}$ |
| :---: | :---: | :---: |
| NET LOSS | (\$ 2,979) | (\$ 5,883) |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES: |  |  |
| Depreciation, depletion and amortization | 10,184 | 10,415 |
| Decrease (Increase) in accounts receivable | $(10,461)$ | $(5,946)$ |
| Decrease (Increase) in inventory | 5,754 | 7,897 |
| Decrease (Increase) in prepaid and other current assets | 1,724 | 1,082 |
| Increase (Decrease) in accounts payable and accrued expenses | 1,870 | 2,297 |
| Increase (Decrease) in interest and taxes payable | 105 | (826) |
| Increase (Decrease) in deferred income taxes | 147 | (227) |
| Increase (Decrease) in other long-term liabilities | 173 | $(4,660)$ |
| Other - net | 653 | 1,444 |
| NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES | 7,170 | 5,593 |
| Cash Flows from Investing Activities: |  |  |
| Payments for purchase of property, plant and equipment | $(3,212)$ | $(2,299)$ |
| Payments for mine development | (101) | -- |
| Proceeds from sale of property, plant and equipment | 8 | 140 |
| NET CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES | $(3,305)$ | $(2,159)$ |
| Cash Flows from Financing Activities: |  |  |
| Proceeds from issuance/(repayment of) short-term debt | $(4,959)$ | $(8,307)$ |
| Proceeds from issuance of long-term debt | 2,000 | 12,000 |
| Repayment of long-term debt | $(4,034)$ | $(10,000)$ |
| NET CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES | $(6,993)$ | $(6,307)$ |
| Effects of Exchange Rate Changes | 78 | (224) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | $(3,050)$ | $(3,097)$ |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 4,357 | 7,014 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 1,307 | \$ 3,917 |

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 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 27, 2003 and December 31, 2002 and the results of operations for the three and six month periods ended June 27, 2003 and June 28, 2002. All of the adjustments were of a normal and recurring nature.

## NOTE B - INVENTORIES

| (Dollars in thousands) | $\begin{aligned} & \text { JUNE } 27, \\ & 2003 \end{aligned}$ | $\begin{gathered} \text { DEC. } 31, \\ 2002 \end{gathered}$ |
| :---: | :---: | :---: |
| Principally average cost: |  |  |
| Raw materials and supplies | \$ 22,787 | \$ 22,572 |
| In process | 61,132 | 65,809 |
| Finished goods | 31,181 | 29,522 |
| Gross inventories | 115,100 | 117,903 |
| Excess of average cost over LIFO |  |  |
| Inventory value | 25,920 | 23,579 |
| Net inventories | \$ 89,180 | \$ 94,324 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## NOTE C - COMPREHENSIVE LOSS

The reconciliation between Net Income (Loss) and Comprehensive Loss for the three and six month periods ended June 27, 2003 and June 28, 2002 is as follows:


## NOTE D - SEGMENT REPORTING

| (Dollars in thousands) | Metal <br> Systems |  | MicroElectronics | Total Segments |  | All <br> Other |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Second Quarter 2003 |  |  |  |  |  |  |  |  |  |
| Revenues from external customers | \$ | 60,670 | \$37,650 | \$ | 98,320 | \$ | 3,485 | \$ | 101,805 |
| Intersegment revenues |  | 817 | 246 |  | 1,063 |  | 4,081 |  | 5,144 |
| Profit (loss) before interest and taxes |  | $(2,775)$ | 3,473 |  | 698 |  | 317 |  | 1,015 |
| Second Quarter 2002 |  |  |  |  |  |  |  |  |  |
| Revenues from external customers | \$ | 63,537 | \$34,481 | \$ | 98,018 | \$ | 2,731 | \$ | 100,749 |
| Intersegment revenues |  | 768 | 474 |  | 1,242 |  | 3,743 |  | 4,985 |
| Profit (loss) before interest and taxes |  | $(5,074)$ | 1,467 |  | $(3,607)$ |  | 1,042 |  | $(2,565)$ |
| Second Quarter 2003 Year-To-Date |  |  |  |  |  |  |  |  |  |
| Revenues from external customers | \$ | 121,877 | \$75,961 | \$ | 197,838 | \$ | 3,485 | \$ | 201,323 |
| Intersegment revenues |  | 1,718 | 518 |  | 2,236 |  | 7,654 |  | 9,890 |
| Profit (loss) before interest and taxes |  | $(6,199)$ | 6,010 |  | (189) |  | (918) |  | $(1,107)$ |
| Second Quarter 2002 Year-To-Date |  |  |  |  |  |  |  |  |  |
| Revenues from external customers | \$ | 119,454 | \$68,026 | \$ | 187,480 | \$ | 2,851 | \$ | 190,331 |
| Intersegment revenues |  | 1,367 | 957 |  | 2,324 |  | 6,632 |  | 8,956 |
| Profit (loss) before interest and taxes |  | $(13,599)$ | 3,669 |  | $(9,930)$ |  | 1,864 |  | $(8,066)$ |

## End of Filing

