

BRUSH ENGINEERED MATERIALS INC

FORM 10-Q (Quarterly Report)

Filed 11/13/2000 For Period Ending 9/29/2000

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CIK	0001104657
Industry	Metal Mining
Sector	Basic Materials
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 September 29, 2000

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 ENGINEERED MATERIALS INC.

(Exact name of Registrant as specified in charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-1919973
(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 X No

As of November 3, 2000 there were 16,563,743 shares of Common Stock, no par value, outstanding.

PART I FINANCIAL INFORMATION

BRUSH ENGINEERED MATERIALS INC. AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of Brush Engineered Materials Inc. (formerly Brush Wellman Inc.) and its subsidiaries for the quarter ended September 29, 2000 are as follows:

Consolidated Statements of Income - Three and nine months ended September 29, 2000 and October 1, 1999

Consolidated Balance Sheets -
September 29, 2000 and December 31, 1999

Consolidated Statements of Cash Flows - Nine months ended September 29, 2000 and October 1, 1999

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands except share and per share amounts)	Third Quarter Ended		Nine Months Ended	
	Sep. 29, 2000	Oct. 1, 1999	Sep. 29, 2000	Oct. 1, 1999
Net sales	\$ 143,926	\$ 113,794	\$ 416,532	\$ 335,628
Cost of sales	115,304	94,981	329,912	267,557
Gross Margin	28,622	18,813	86,620	68,071
Selling, administrative and general expenses	21,101	17,298	64,065	52,919
Research and development expenses	1,870	2,191	5,571	6,207
Other-net	(19)	259	314	287
Operating Profit	5,670	(935)	16,670	8,658
Interest expense	1,227	913	3,407	2,697
Income before income taxes	4,443	(1,848)	13,263	5,961
Income taxes	359	(1,296)	3,032	793
Net Income	\$ 4,084	\$ (552)	\$ 10,231	\$ 5,168
Per Share of Common Stock: Basic	\$ 0.25	\$ (0.03)	\$ 0.63	\$ 0.32
Weighted average number of common shares outstanding	16,315,523	16,200,229	16,248,733	16,197,158
Per Share of Common Stock: Diluted	\$ 0.25	\$ (0.03)	\$ 0.62	\$ 0.32
Weighted average number of common shares outstanding	16,521,028	16,200,229	16,392,435	16,261,878
Cash dividends per common share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Dollars in thousands)	Sep. 29, 2000	Dec. 31, 1999

Assets		
Current Assets		
Cash and cash equivalents	\$ 6,182	\$ 99
Accounts receivable	101,534	79,772
Inventories	108,448	110,570
Prepaid expenses	6,923	7,204
Deferred income taxes	27,837	26,610
	-----	-----
Total Current Assets	250,924	224,255
Other Assets	31,613	33,213
Property, Plant and Equipment	448,690	440,234
Less allowances for depreciation, depletion and impairment	280,699	269,296
	-----	-----
	167,991	170,938
	-----	-----
	\$450,528	\$428,406
	=====	=====
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt	\$ 21,814	\$ 34,687
Accounts payable	33,315	27,731
Other liabilities and accrued items	35,052	29,869
Dividends payable	1,985	1,959
Income taxes	5,039	5,178
	-----	-----
Total Current Liabilities	97,205	99,424
Other Long-Term Liabilities	17,109	14,407
Retirement and Post-employment Benefits	39,603	39,430
Long-term Debt	53,305	42,305
Deferred Income Taxes	15,347	12,202
Shareholders' Equity	227,959	220,638
	-----	-----
	\$450,528	\$428,406
	=====	=====

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollars in thousands)	NINE MONTHS ENDING	
	SEP. 29, 2000	OCT. 1, 1999
NET INCOME	\$10,231	\$ 5,168
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH		
PROVIDED FROM OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	15,929	16,645
Amortization of mine development	1,661	4,408
Decrease (Increase) in accounts receivable	(18,713)	(17,448)
Decrease (Increase) in inventory	993	(7,454)
Decrease (Increase) in prepaid and other current assets	803	(2,665)
Increase (Decrease) in accounts payable and accrued expenses	6,478	19,459
Increase (Decrease) in interest and taxes payable	1,682	2,251
Increase (Decrease) in deferred income tax	(136)	2,738
Increase (Decrease) in other long-term liabilities	1,518	(541)
Other - net	2,253	1,027
NET CASH PROVIDED FROM OPERATING ACTIVITIES	22,699	23,588
Cash Flows from Investing Activities:		
Payments for purchase of property, plant and equipment	(13,030)	(11,556)
Payments for mine development	(308)	(261)
Proceeds from (Payments for) other investments	-	141
NET CASH USED IN INVESTING ACTIVITIES	(13,338)	(11,676)
Cash Flows from Financing Activities:		
Proceeds from issuance (repayment) of short-term debt	(11,331)	(13,271)
Proceeds from issuance of long-term debt	23,000	17,200
Repayment of long-term debt	(12,000)	(7,000)
Issuance of Common Stock under stock option plans	3,175	171
Purchase of Common Stock for treasury	-	-
Payments of dividends	(5,882)	(5,854)
NET CASH USED IN FINANCING ACTIVITIES	(3,038)	(8,754)
Effects of Exchange Rate Changes	(240)	(36)
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,083	3,122
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	99	1,938
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,182	\$ 5,060
	=====	=====

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 September 29, 2000 and December 31, 1999 and the results of operations for the nine months ended September 29, 2000 and October 1, 1999. Certain amounts in prior years have been reclassified to conform with the 2000 consolidated financial statement presentation.

NOTE B - INVENTORIES

(DOLLARS IN THOUSANDS)	SEP. 29, 2000	DEC. 31, 1999
Principally average cost:		
Raw materials and supplies	\$ 15,777	\$ 20,520
In process	84,891	73,192
Finished goods	32,729	39,634
Gross inventories	133,397	133,346
Excess of average cost over LIFO		
Inventory value	24,949	22,776
Net inventories	\$108,448	\$110,570

NOTE C - COMPREHENSIVE INCOME

During the third quarter 2000 and 1999, comprehensive income amounted to \$3,748,364 and \$438,988 respectively. For September year-to-date 2000 and 1999, comprehensive income amounted to \$10,231,141 and \$5,171,335 respectively. The difference between net income and comprehensive income is the cumulative translation adjustment for the periods presented.

NOTE D - SEGMENT REPORTING

Selected financial data by business segment as prescribed by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", for the third quarter 2000 and 1999 and for the first nine months of 2000 and 1999 are as follows:

	METAL SYSTEMS	MICRO- ELECTRONICS	TOTAL SEGMENTS	ALL OTHER	TOTAL
(Dollars in thousands)					
THIRD QUARTER 2000					
Revenues from external customers	\$ 93,917	\$ 48,498	\$142,415	\$ 1,511	\$143,926
Intersegment revenues	36	553	589	-	589
Segment profit (loss) before interest and taxes	9,033	3,613	12,646	(6,976)	5,670
THIRD QUARTER 1999					
Revenues from external customers	75,099	36,331	111,430	2,364	113,794
Intersegment revenues	67	287	354	-	354
Segment profit (loss) before interest and taxes	(740)	2,940	2,200	(3,135)	(935)
FIRST NINE MONTHS 2000					
Revenues from external customers	\$280,181	\$131,923	\$412,104	\$ 4,428	\$416,532
Intersegment revenues	245	1,076	1,324	-	1,324
Segment profit (loss) before interest and taxes	25,361	10,214	35,575	(18,905)	16,670
FIRST NINE MONTHS 1999					
Revenues from external customers	228,537	100,857	329,394	6,234	335,628
Intersegment revenues	211	1,145	1,356	-	1,356
Segment profit (loss) before interest and taxes	12,740	7,790	20,530	(11,872)	8,658

NOTE E - NEW PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition" (SAB 101), which provides guidance on the measurement and timing of revenue recognition in financial statements. The provisions of SAB 101 must be adopted by the fourth quarter 2000. Management has not determined the effect SAB 101 will have, if any, on the Company's financial statements.

In June 1998, Financial Accounting Standards No. 133 ("FAS 133"), "Accounting for Derivative Instruments and Hedging Activities" was issued. FAS 133, as amended, is effective for the Company beginning January 1, 2001. The statement requires the Company to recognize all derivatives as either assets or liabilities and to measure those instruments at their fair values. FAS 133 provides criteria for designating derivatives as either fair value, cash flow or foreign currency hedges and establishes accounting standards for reporting the changes in fair value for each type of hedge. Adjustments to a derivative's fair value will be recorded on the balance sheet with the offsetting gain or loss recorded through net income or other comprehensive income as appropriate. The Company is exposed to foreign currency, interest rate and commodity price risks and uses derivative instruments to hedge those exposures. The Company is continuing its review of the provisions of FAS 133 and has not yet completed its assessment of the statement's impact on its financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD LOOKING STATEMENTS

Statements set forth in this document that are not historical in nature, including statements regarding the Company's or management's intentions, hopes, beliefs, expectations, projections, plans or predictions of the future, are forward-looking statements. The Company's actual future performance may differ materially from that contemplated by the forward-looking statements as a result of a variety of factors. These factors include demand for the Company's products in the markets the Company serves (especially as impacted by events in particular markets, including telecommunications, computer, automotive electronics, optical media and industrial components, or in particular geographic regions), the Company's success in implementing its strategic plans, the timely and successful completion of pending capital and remediation projects, tax rates, exchange rate fluctuations and the resolution of pending litigation matters in accordance with the Company's expectation that there will be no material adverse effects.

RESULTS OF OPERATIONS

(Millions, except per share data)	Third Quarter		First Nine Months	
	2000	1999	2000	1999
Sales	\$143.9	\$113.8	\$416.5	\$335.6
Operating Profit(Loss)	5.7	(0.9)	16.7	8.7
Diluted E.P.S.	\$ 0.25	\$ (0.03)	\$ 0.62	\$ 0.32

Sales in the third quarter of 2000 and for the first nine months of 2000 established new record highs. Sales grew 26.5% in the current quarter and 24.1% year to date from the 1999 levels. Operating profit and diluted earnings per share also improved in the third quarter and first nine months of 2000 over last year. Sales and profits from both business groups - the Metal Systems Group and the Microelectronics Group - increased in the quarter and the first nine months of the year.

Metal Systems Group

(Millions)	Third Quarter		First Nine Months	
	2000	1999	2000	1999
Sales	\$93.9	\$75.1	\$280.2	\$228.5
Operating Profit(Loss)	9.0	(0.7)	25.4	12.7

The Metal Systems Group consists of Alloy Products, Engineered Materials Systems and Beryllium Products. Group sales grew \$18.8 million in the third quarter 2000 over third quarter 1999, a 25.1% improvement. September 2000 year-to-date sales have grown \$51.7 million, or 22.7%, over the previous year. The following chart highlights individual business unit sales as a percent of the total Metal Systems Group sales:

	Third Quarter		First Nine Months	
	2000	1999	2000	1999
Percent of Segment Sales:				
Alloy Products	70%	73%	71%	72%
Engineered Material Systems	23	21	23	20
Beryllium Products	7	6	6	8

Alloy sales increased 20% in the third quarter of 2000 over the third quarter of 1999 while year-to-date sales have increased 22% in 2000. Sales from both of Alloy's two major families of products - strip products and bulk products - were higher in the current quarter and for the year as compared to 1999. Demand for strip products from the telecommunications, computer and automotive electronic market has remained strong throughout the current year. Production supply from the recently expanded strip mill in Elmore, Ohio, while improved over last year's levels, has not been able to keep pace with the growing demand. Pounds shipped directly from Elmore to customers or to the Company's service centers without further finishing at the Reading, Pennsylvania facility continued to increase during the third quarter of 2000, thereby adding to the overall capacity of the supply chain. However, equipment reliability issues adversely affected production output in the latter part of the third quarter of 2000 and

these issues continued into the early part of the fourth quarter. Strip pounds sold increased for the fifth consecutive quarter and the growth rate in pounds sold is higher than the growth rate in the sales value. Strip finished goods inventories declined significantly in the first half of 2000 and increased very modestly in the third quarter of 2000.

The sales improvement in Alloy bulk products in 2000 resulted from increased demand from the oil and gas and the undersea communication markets. Bulk products are a family of alloys, primarily copper-beryllium, manufactured in rod, bar, tube, billet and other forms. Additional markets served by bulk products include plastic tooling, aerospace and welding. Sales of non-beryllium containing alloys from the Company's Lorain, Ohio facility have not grown appreciably.

Sales from Engineered Materials Systems improved 34% in the third quarter of 2000 and 36% in the first nine months of 2000 over the respective periods in 1999. These products are manufactured and sold by Technical Materials Inc. (TMI), a wholly owned subsidiary of the Company. TMI's sales and profits are on pace to establish annual record highs in 2000. Major markets served by TMI include telecommunications, automotive electronics and computer. A portion of TMI's sales growth has resulted from the on-going expansion of its plating operations. The over-all incoming order rate for Engineered Material System products remains strong.

Sales of Beryllium Products were 42% higher in the third quarter 2000 than in the third quarter 1999. Year-to-date sales of these products were unchanged from 1999. Sales in the first half of 2000 had been depressed by slow-downs in government defense spending and an automotive application that had reached the end of its product life cycle. The order entry trend was positive in the third quarter of 2000, particularly for long leadtime defense-related beryllium metal products. Although sales grew in the third quarter compared to the first two

quarters of 2000, constraints within manufacturing operations may impact the Company's ability to quickly respond to the increased order level.

Gross margin on Metal Systems sales increased by \$9.8 million in the third quarter 2000 over the third quarter 1999. For the year, the gross margin increased \$14.1 million on the strength of the higher sales. As a percent of sales, the margin was higher in the third quarter of 2000 than in the third quarter of 1999 and down slightly on a year-to-date basis. The recently implemented price increase on selective Alloy products had a minor favorable impact on margins in the third quarter. Disruptions due to equipment reliability issues and/or manufacturing up time at the Elmore facility have caused product flow and related quality issues for Alloy Products and, to a lesser extent, Beryllium Products, in 2000. Total manufacturing fixed overhead costs were unchanged in the third quarter 2000 compared to the third quarter 1999 as current quarter higher cost increases were offset by the cost of the expanded focused start-up effort for the Elmore strip mill incurred in the third quarter of 1999. For the year, fixed overhead costs have increased \$6.4 million over 1999. The European currencies were weaker relative to the U.S. dollar in 2000 as compared to 1999, while the yen was slightly stronger. The resulting translation effect on Metal System's sales and margins was an unfavorable \$1.2 million in the third quarter 2000 and \$2.5 million for the first nine months of 2000 as compared to the respective periods in 1999. The weakness in the European currencies continued into the early part of the fourth quarter of 2000.

The total selling, administrative and general expenses and other-net expenses for Metal Systems only increased \$0.1 million in the third quarter 2000 compared to the prior year while the year-to-date expenses increased \$1.4 million. As a result, the group's operating profit of \$9.0 million in the third quarter of 2000 represents a \$9.7 million improvement over the operating loss generated in the third quarter of 1999. For the first nine months of 2000,

operating profit of \$25.5 million was approximately double the profit earned in the comparable period in 1999.

Microelectronics Group

(Millions)	Third Quarter		First Nine Months	
	2000	1999	2000	1999
	-----	-----	-----	-----
Sales	\$48.5	\$36.3	\$131.9	\$100.9
Operating Profit	3.6	2.9	10.2	7.8

The Microelectronics Group (MEG) consists of Williams Advance Materials, Inc. and Electronic Products. As the above chart indicates, MEG sales increased 34% in the third quarter 2000 and 31% in the first nine months of 2000 over the respective periods in the prior year. The following chart highlights business unit sales as a percent of the total MEG sales:

	Third Quarter		First Nine Months	
	2000	1999	2000	1999
	-----	-----	-----	-----
Percent of Segment Sales:				
WAM	78%	78%	76%	77%
Electronic Products	22	22	24	23

Sales from Williams Advanced Materials, Inc. (WAM), a wholly owned subsidiary of the Company, continued to grow, improving 33% for the quarter and 30% for the year. WAM produces a wide variety of precious and non-precious metal products used in the optical media and the wireless, photonic and other sectors of the microelectronics markets. Major applications for WAM's products include the reflective coating on DVD, CD-R, and CD-RW discs. In addition, WAM provides precious metal refining services to its customers, while also using the refinery as a cost-effective means of recycling internally generated scrap. Precious metal prices typically are passed through to the customer and, as a result, approximately \$6.7 million of WAM's year-to-date sales increase is due to higher metal prices. Revenues from Pure Tech, a wholly owned subsidiary of WAM, improved once again as a result of new application development, including fiber optic applications. Pure Tech's order entry trend remains robust.

Electronic Products sales increased 37% in the third quarter of 2000 and 33% in the first nine months of 2000 compared to the same periods a year ago. This unit manufactures beryllia ceramic products, direct bond copper products, powder metal products and thick film circuits used in the telecommunications, defense and automotive markets. Sales of all four product families were higher in the first nine months of the current year than last year. Demand for beryllia ceramic products may slow down in the upcoming quarters due to an application that has been discontinued.

The MEG gross margin improved by \$1.5 million in the third quarter of 2000 from the third quarter of 1999, while the year-to-date margin increased \$6.4 million. The gross margin as a percent of sales was lower in 2000 than 1999 due in part to the higher metal price pass through effect. Fixed manufacturing overhead expenses were \$0.6 million higher in the third quarter of 2000 and \$2.2 million higher in the first nine months of 2000 as a result of an increased level of activity and unfavorable inventory valuation adjustments. Product mix was unfavorable in the third quarter of 2000 compared to the third quarter of last year.

The total selling, administrative and general expenses and other-net expense for the MEG were \$0.8 million higher in the third quarter of 2000 than the third quarter of 1999 while the year-to-date expenses were \$2.9 million higher in the current year. Operating profit in the third quarter of 2000 was \$3.6 million compared to \$2.9 million in the third quarter of 1999. Year-to-date operating profit of \$10.2 million represents a 31.0% improvement over profits in 1999.

CONSOLIDATED

Total sales, including sales from operations not part of Metal Systems or MEG, were \$143.9 million in the third quarter of 2000 compared to \$113.8 million in the third quarter of 1999. September year-to-date sales were \$416.5 million in 2000 and \$335.6 million in 1999. International sales were \$35.5 million in the third quarter of 2000, up \$1.2 million from the third

quarter last year. International sales totaled \$111.9 million, or 27% of sales, in the first three quarters of 2000 and \$102.3 million, or 31% of sales, in the same time period last year. International sales include sales from the Company's subsidiaries in Europe and Asia as well as direct exports from the Company's U.S. operations.

Total gross margin improved to \$28.6 million in the third quarter of 2000 from \$18.8 million in the comparable period last year. The gross margin also improved as a percent of sales to 19.9% in the third quarter of 2000 from 16.5% in the third quarter of 1999. The year-to-date gross margin was \$86.6 million, or 20.8% of sales, in 2000, versus \$68.1 million, or 20.3% of sales, in 1999.

Selling, administrative and general (SA&G) expenses were \$21.1 million in the third quarter of 2000 compared to \$17.3 million in the third quarter of 1999. As a percent of sales, SA&G declined to 14.7% in the third quarter of 2000 from 15.2% in the third quarter of 1999. For the first nine months of 2000, SA&G expenses were \$64.1 million, or 15.4% of sales, compared to \$52.9 million, or 15.8% of sales, in the first nine months of 1999. Selling and marketing expenses from both the Metal Systems Group and the MEG continue to be higher in 2000 than 1999 in order to support the increased sales volumes and as a result of expanded market development activities. Legal and administrative costs associated with pending litigation matters and for research and other costs related to chronic beryllium disease were also higher in both the third quarter and first nine months of 2000 than they were in the comparable periods of 1999. However, these costs were lower in the third quarter 2000 than they were in either of the first two quarters of 2000. SA&G expenses were also higher in the third quarter and first nine months of 2000 than in 1999 as a result of the legal and administrative costs incurred to implement the previously announced corporate reorganization. Incentive compensation expense was higher in 2000 than 1999 due to the increased level of profitability.

Research and development (R&D) expenses were \$1.9 million in the third quarter of 2000, a slight decline from the \$2.2 million incurred in the third quarter of 1999. For the first nine months, R&D expenses were \$5.6 million (1.3% of sales) in 2000 and \$6.2 million (1.8% of sales) in 1999. The lower expense in the current year was a result of a planned reduction in efforts supporting Beryllium Products and Alloy Products. It is also reflective of a minor re-direction of R&D resources to support Alloy strip manufacturing efforts in Elmore during 2000.

Other-net income was less than \$0.1 million in the third quarter of 2000 compared to an expense of \$0.3 million in the third quarter of 1999. Other-net expense was \$0.3 million for the first nine months of both 2000 and 1999. Other-net includes precious and non-precious metal consignment fees, foreign currency exchange gains and losses, bad debt expenses, cash discounts, amortization of intangible assets and other miscellaneous non-operating items. The consignment fee was unchanged in the third quarter 2000 from the third quarter 1999 but was higher on a year-to-date basis in 2000 as a result of increased prices and rates. Exchange gains are higher in 2000 than in 1999 offsetting a portion of the unfavorable translation effect at the margin line.

Operating profit was \$5.7 million in the third quarter of 2000 compared to an operating loss of \$0.9 million in the third quarter of 1999. For the first nine months, operating profit was \$16.7 million in 2000 and \$8.7 million in 1999. The higher profits in 2000 resulted from the margin earned on the increased sales less the additional SA&G expenses.

Interest expense was \$1.2 million in the third quarter of 2000 versus \$0.9 million in the third quarter of 1999. For the first three quarters of 2000, interest expense was \$3.4 million compared to \$2.7 million in the first three quarters of 1999. The average outstanding debt was higher in 2000 than the previous year as was the average borrowing rate. Interest capitalized

associated with long-term capital projects increased \$0.1 million in 2000 over 1999, but remained at a fairly minor level.

Income before income taxes was \$4.4 million in the third quarter of 2000, an improvement of \$6.3 million over the loss before income taxes generated in the third quarter of 1999. Income before income taxes was \$13.3 million for the first three quarters of 2000 and \$6.0 million for the first three quarters of 1999.

Income taxes were applied at a rate of 8.1% of the income before income taxes in the third quarter of 2000 and 22.9% of income before income taxes for the first three quarters of 2000. An effective tax rate of 13.3% was used for the first three quarters of 1999. The lower tax rate used in the third quarter 2000 resulted from the reversal of a valuation allowance on a foreign net operating loss and recognition of tax benefits associated with higher actual and projected profits from certain foreign operations. The effective tax rate was reduced in the third quarter 1999 from the rate used earlier in that year due to lower anticipated pre-tax earnings for the year and the identification and realization of certain credits not previously contemplated in the effective rate.

Net income was \$4.1 million in the third quarter 2000 compared to a net loss of \$0.6 million in the third quarter 1999. For the first nine months, net income was \$10.2 million in 2000 and \$5.2 million in 1999. Diluted earnings per share of \$0.25 for the quarter and \$0.62 year-to-date were a marked improvement over the loss of \$0.03 in the third quarter of 1999 and the \$0.32 earned in the first nine months of last year.

LEGAL PROCEEDINGS

The Company is a defendant in proceedings in various state and federal courts by plaintiffs alleging that they have contracted chronic beryllium disease ("CBD") or related ailments as a result of exposure to beryllium. Plaintiffs in CBD cases seek recovery under theories of

intentional tort and various other legal theories and seek compensatory and punitive damages, in many cases of an unspecified sum. Spouses, if any, claim loss of consortium.

The following table summarizes the activity associated with CBD cases. The table includes one purported class action lawsuit which was filed during the first quarter of 2000 and involves seven named plaintiffs.

	Quarter Ended Sep. 29, 2000 -----	Quarter Ended Jun. 30, 2000 -----
Total cases pending.....	60	48
Total plaintiffs.....	168	151
Number of claims (plaintiffs) filed during period.....	13(21)	4(8)
Number of claims (plaintiffs) settled during period.....	0(0)	1(2)
Aggregate settlements paid during period (dollars in thousands).....	\$0	\$180
Number of claims (plaintiffs) dismissed.....	1(4)	1(2)

Additional CBD claims may arise. Management believes the Company has substantial defenses in these cases and intends to contest the suits vigorously. Employee cases, in which plaintiffs have a high burden of proof, have historically involved relatively small losses to the Company. Third party plaintiffs (typically employees of the Company's customers) face a lower burden of proof than do the Company's employees, but these cases are generally covered by insurance. The Company recorded a reserve for CBD litigation of \$8.7 million at September 29, 2000 and \$6.0 million at December 31, 1999. The Company also recorded a receivable of \$5.4 million at September 29, 2000 and \$3.9 million at December 31, 1999 from its insurance carriers as recoveries for insured claims.

Although it is not possible to predict the outcome of the litigation pending against the Company and its subsidiaries, the Company provides for costs related to these matters when a loss is probable and the amount is reasonably estimable. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably in amounts exceeding the Company's reserves. An unfavorable outcome or settlement of a pending CBD case or additional adverse media coverage could encourage the commencement of additional similar litigation. The Company is unable to estimate its potential exposure to unasserted claims.

While the Company is unable to predict the outcome of the current or future CBD proceedings, based upon currently known facts and assuming collectibility of insurance, the Company does not believe that resolution of these proceedings will have a material adverse effect on the financial condition or the cash flow of the Company. However, the Company's results of operations could be materially affected by unfavorable results in one or more of these cases.

Standards for exposure to beryllium are under review by governmental agencies, including the United States Occupational Safety and Health Administration, and by private standard setting organizations. One result of these reviews might be more stringent worker safety standards. More stringent standards, as well as other factors such as the adoption of beryllium disease compensation programs and publicity related to these reviews may also affect buying decisions by the users of beryllium containing products. If the standards are made more stringent or the Company's customers decide to reduce their use of beryllium containing products, the Company's operating results, liquidity and capital resources could be materially adversely affected. The extent of the adverse effect would depend on the nature and extent of the changes to the standards, the cost and ability to meet the new standards, the extent of any reduction in customer use and other factors that cannot be estimated.

FINANCIAL POSITION

Cash flow from operations was \$22.7 million in the first nine months of 2000. Cash balances increased to \$6.2 million at the end of the third quarter 2000 from \$0.1 million at the end of 1999.

Accounts receivable grew \$21.8 million during the first nine months of 2000. The growth is a function of the record sales volumes as well as an increase in the days sales outstanding. Accounts written off as bad debts remained minor. Inventories declined by \$2.1 million in the first three quarters of 2000. During the first quarter of 2000, the Company entered into an off-balance sheet agreement with a bank to finance a portion of its copper-based inventories. As of the end of the third quarter, the Company had utilized \$8.3 million of this facility. Absent this agreement, total inventories on the balance sheet would have increased by \$6.1 million. Approximately 60% of the FIFO inventory value supports Alloy products. During 2000, Alloy work-in-process inventories have climbed while finished goods have declined. Accounts payable and other accruals increased in 2000 due to the higher level of activity and to finance a portion of the receivable growth.

Capital expenditures for property, plant and equipment and mine development were \$13.3 million in the first nine months of 2000. Approximately 60% of the expenditures in 2000 have been for the Metal Systems Group and 34% for the MEG. Major projects currently underway include additional plating and welding equipment at TMI, a new bonding center for Pure Tech and a new furnace for strip manufacturing in Reading, Pennsylvania.

Total balance sheet debt at the end of the third quarter 2000 stood at \$75.1 million, a \$1.9 million decrease from December 31, 1999. Short-term debt declined \$12.9 million and long-term debt increased \$11.0 million during the first nine months of 2000. Effective the end of the second quarter of 2000, the Company amended its revolving credit agreement (the "revolver")

and various other lines of credit with its bank group. Maximum borrowings under the revolver were increased to \$65.0 million from \$55.0 million as a result of merging a \$10.0 million multi-currency line into the facility. Certain restrictive covenants that apply to the revolver, as well as to the operating lease that financed a portion of the alloy expansion project, were revised and new restrictive covenants were added. The revolver matures in July 2003.

Proceeds from issuance of Common Stock under stock option plans totaled \$3.2 million in the first nine months of 2000. Three quarterly dividends totaling \$5.9 million have been paid thus far in 2000. The quarterly dividend per share of \$0.12 remained unchanged from 1999.

Cash flow from operations was \$23.6 million during the first nine months of 1999. Accounts receivable increased \$17.8 million while inventories increased \$7.3 million. These increases were generally offset by changes in other elements of working capital. Capital expenditures, including the implementation of new information technology systems which were installed in part to avert Year 2000 compatibility issues, totaled \$11.8 million in the first three quarters of 1999. Total debt decreased by \$2.2 million during this time period. There were no purchases of Company Stock and proceeds from issuance of stock under option plans totaled \$0.2 million.

Funds being generated by operations, plus the available borrowing capacity, are believed to be adequate to support operating requirements, capital expenditures, remediation projects and dividends. Excess cash, if any, is invested in money market or other high-quality investments.

MARKET RISK DISCLOSURES

For information on the Company's market risks, refer to page 34 of the annual report to shareholders for the year ended December 31, 1999.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject, from time to time, to a variety of civil and administrative proceedings arising out of its normal operations, including, without limitation, product liability claims, health, safety and environmental claims and employment-related actions. Among such proceedings are the cases described below.

CBD CLAIMS

There are claims pending in various state and federal courts against the Company by employees, former employees or surviving spouses and third party individuals alleging that they contracted chronic beryllium disease ("CBD") or related ailments as a result of exposure to beryllium. Plaintiffs in CBD cases seek recovery under theories of intentional tort and various other legal theories and seek compensatory and punitive damages, in many cases of an unspecified sum. Spouses, if any, claim loss of consortium.

During the third quarter of 2000, the number of CBD cases grew from 48 cases (involving 151 plaintiffs), as of June 30, 2000 to 60 cases (involving 168 plaintiffs) as of September 30, 2000. During the third quarter, one purported class action involving four named plaintiffs was dismissed.

As of September 30, 2000, the Company had an aggregate of 34 CBD "employee cases" involving an aggregate of 34 employees, former employees or surviving spouses (in 21 of these cases, a spouse has also filed claims as part of their spouse's case). 25 of the other CBD cases involve third party individual plaintiffs, with 60 individuals or surviving spouses (and 40 spouses who have filed claims as part of their spouse's case and six children who have filed claims as part of their parent's case). In addition, there is one purported class action involving seven named plaintiffs. Employee cases, in which plaintiffs have a high burden of proof, have historically involved relatively small losses to the Company. Third party plaintiffs (typically employees of our customers) face a lower burden of proof than do our employees, but these cases are generally covered by insurance.

OTHER CLAIMS

The Company's Egbert subsidiary has been named as a defendant in a number of lawsuits alleging asbestos-induced illness, arising out of the conduct of a friction materials business whose operating assets Egbert sold in 1986. In each of the pending cases, Egbert is one of a large number of defendants named in the respective complaints. Egbert is a party to 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 some expenses of defense, and Egbert, Pneumo Abex Corporation and the insurers share payment of settlements and/or judgments. In each of the pending cases, both expenses of defense and payment of settlements and/or judgments are subject to a limited, separate

reimbursement agreement under which a successor owner of the business is obligated. A number of cases of this type have been disposed of to date, some by voluntary dismissal, others by summary judgment, one by jury verdict of no liability, and still others upon payment of nominal amounts in settlement. There are at present 23 asbestos cases pending.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(10) Form of Agreement Relating to Restricted Shares entered into by the Company and Mr. Gordon D. Harnett dated September 1, 2000.

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

(27) Financial Data Schedule.

(b) Reports on Form 8-K

There have been no reports on Form 8-K during the quarter ended September 29, 2000.

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 ENGINEERED MATERIALS INC.

Dated: November 13, 2000

/s/ John D. Grampa

John D. Grampa
Vice President Finance
and Chief Financial Officer

Exhibit 10

BRUSH ENGINEERED MATERIALS INC.

Agreement Relating to Restricted Shares

WHEREAS, Gordon D. Harnett (the "Grantee") is an officer of Brush Engineered Materials Inc., an Ohio corporation (the "Corporation");

WHEREAS, the execution of an agreement in the form hereof (this "Agreement") has been authorized by a resolution of the Organization and Compensation Committee (the "Committee") of the Board of Directors of the Corporation that was duly adopted by a written action in lieu of a meeting that became effective on September 1, 2000;

WHEREAS, the Grantee has surrendered to the Corporation options granted on January 22, 1991 under the Corporation's 1995 Stock Incentive Plan (the "Plan") to purchase 100,000 shares of common stock of the Corporation, par value \$1.00 per share, at an exercise price per share of \$16.25;

NOW, THEREFORE, pursuant to the Plan, the Corporation hereby grants to the Grantee 20,245 Restricted Shares (as defined in the Plan), effective as of September 1, 2000 (the "Date of Grant"), and subject to the terms and conditions of the Plan and the following additional terms, conditions, limitations and restrictions:

ARTICLE I

DEFINITIONS

1. All terms used herein with initial capital letters and not otherwise defined herein that are defined in the Plan have the meanings assigned to them in the Plan.
2. "Cause" means commission by the Grantee of one or more of the following acts with a cumulative effect that is materially harmful to the Corporation and its Subsidiaries

taken as a whole: (a) an intentional act of fraud, embezzlement or theft in connection with his duties or in the course of his employment with the Corporation or any Subsidiary; (b) intentional wrongful damage to property of the Corporation or any Subsidiary; (c) intentional wrongful disclosure of secret processes or confidential information of the Corporation or any Subsidiary; and (d) intentional wrongful engagement in any competitive activity that would constitute a material breach of the duty of loyalty. For purposes of this Agreement, no act, or failure to act, on the part of the Grantee shall be deemed "intentional" if it was due primarily to an error in judgment or negligence. Any act or omission shall be deemed "intentional" only if done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in or not opposed to the best interest of the Corporation and its Subsidiaries. Notwithstanding the foregoing, the Grantee shall not be deemed to have been terminated for "Cause" hereunder unless and until there has been delivered to the Grantee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the Board then in office at a meeting of the Board called and held for such purpose (after reasonable notice to the Grantee and an opportunity for the Grantee, together with his counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Grantee had committed an act set forth above in this paragraph and specifying the particulars thereof in detail.

3. "Good Reason" means (a) any reduction in the Grantee's base salary or annual bonus opportunity; (b) any significant reduction in the Grantee's benefits or his perquisites; (c) any significant reduction in the Grantee's title, status, position, responsibilities, duties or reporting relationships; or (d) requirement by the Corporation that the Grantee have as his principal location of work any location that is in excess of 50 miles from the Grantee's principal residence as of the date of this Agreement.

ARTICLE II

CERTAIN TERMS OF RESTRICTED SHARES

1. **ISSUANCE OF RESTRICTED SHARES.** The Restricted Shares covered by this Agreement shall be issued to the Grantee effective upon the Date of Grant. The Common Shares subject to this grant of Restricted Shares shall be fully paid and nonassessable and shall be represented by a certificate or certificates registered in the Grantee's name, endorsed with an appropriate legend referring to the restrictions hereinafter set forth.

2. **RESTRICTIONS ON TRANSFER OF SHARES.** The Common Shares subject to this grant of Restricted Shares may not be sold, exchanged, assigned, transferred, pledged, encumbered or otherwise disposed of by the Grantee, except to the Corporation, until the Restricted Shares have become nonforfeitable as provided in Section 3 hereof; PROVIDED, HOWEVER, that the Grantee's rights with respect to such Common Shares may be transferred by will or pursuant to the laws of descent and distribution. Any purported transfer or encumbrance in violation of the provisions of this Section 2 of this Article II shall be void, and the other party to any such purported transaction shall not obtain any rights to or interest in the Common Shares purported to have been transferred. The Corporation in its sole discretion, when and as permitted by the Plan, may waive the restrictions on transferability with respect to all or a portion of the Common Shares subject to this grant of Restricted Shares.

3. **VESTING OF RESTRICTED SHARES.** All of the Restricted Shares covered by this Agreement shall become nonforfeitable upon the occurrence of any of the following events:

(a) the Grantee having remained in the continuous employ of the Corporation or a Subsidiary for three years from the Date of Grant;

- (b) the Grantee's death or permanent disability while in the employ of the Corporation or a Subsidiary during the three-year period from the Date of Grant;
- (c) a Change in Control during the three-year period from the Date of Grant while the Grantee is employed by the Corporation or a Subsidiary;
- (d) involuntary termination of the Grantee's employment by the Corporation without Cause during the three-year period from the Date of Grant; and
- (e) voluntary termination by the Grantee of his employment for Good Reason during the three-year period from the Date of Grant.

4. **FORFEITURE OF SHARES.** The Restricted Shares shall be forfeited, except as otherwise provided in Section 3 above, if the Grantee ceases to be employed by the Corporation or a Subsidiary during the first three years from the Date of Grant. In the event of a forfeiture, the certificate (s) representing the Restricted Shares covered by this Agreement shall be canceled.

5. **DIVIDEND, VOTING AND OTHER RIGHTS.** (a) Except as otherwise provided herein, from and after the Date of Grant, the Grantee shall have all of the rights of a shareholder with respect to the Restricted Shares covered by this Agreement, including the right to vote such Restricted Shares and receive any dividends that may be paid thereon; **PROVIDED, HOWEVER,** that if the Grantee becomes entitled to receive additional Common Shares or other securities pursuant to a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, separation or reorganization or any other change in the capital structure of the Corporation, those securities received by the Grantee by virtue of his ownership of the Restricted Shares will be subject to the same restrictions as the Restricted Shares to which their issuance relates.

(b) Cash dividends on the Restricted Shares covered by this Agreement shall be sequestered by the Corporation from and after the Date of Grant until such time as the Restricted

Shares to which they are attributable become nonforfeitable in accordance with

Section 3 of this Article II, whereupon such dividends as are no longer sequestered shall be paid to the Grantee in cash. To the extent that Restricted Shares covered by this Agreement are forfeited pursuant to Section 4 of this Article II, all the dividends sequestered with respect to the forfeited Restricted Shares shall also be forfeited. No interest shall be payable with respect to any sequestered dividends.

6. **RETENTION OF STOCK CERTIFICATE(S) BY THE CORPORATION.** The certificate(s) representing the Restricted Shares covered by this Agreement shall be held in custody by the Corporation, together with a stock power endorsed in blank by the Grantee with respect thereto, until those shares become nonforfeitable in accordance with Section 3 of this Article II.

ARTICLE III

GENERAL PROVISIONS

1. **COMPLIANCE WITH LAW.** The Corporation shall make reasonable efforts to comply with all applicable federal and state securities laws; PROVIDED, HOWEVER, that notwithstanding any other provision of this Agreement, the Corporation shall not be obligated to issue any Common Shares pursuant to this Agreement if the issuance thereof would result in a violation of any such law.

2. **WITHHOLDING TAXES.** If the Corporation or any Subsidiary is or becomes required to withhold any federal, state, local or foreign tax in connection with any issuance or vesting of Common Shares or other securities pursuant to this Agreement, the Grantee shall pay the tax or make provisions for the payment thereof that are satisfactory to either the Corporation or the Subsidiary that is required to withhold the tax. The Grantee may elect to satisfy all or any part of any such withholding obligation by surrendering to the Corporation or the Subsidiary that

is required to withhold the tax a portion of the Common Shares that are issued or transferred to the Grantee hereunder, and the Common Shares so surrendered by the Grantee shall be credited against any such withholding obligation at the Market Value Per Share of the Common Shares on the date of the surrender.

3. CONTINUOUS EMPLOYMENT. For purposes of this Agreement, the continuous employment of the Grantee with the Corporation or a Subsidiary shall not be deemed to have been interrupted, and the Grantee shall not be deemed to have ceased to be an employee of the Corporation or a Subsidiary, by reason of the transfer of his employment among the Corporation and its Subsidiaries or a leave of absence approved by the Board.

4. RIGHT TO TERMINATE EMPLOYMENT. No provision of this Agreement shall limit in any way whatsoever any right that the Corporation or a Subsidiary may otherwise have to terminate the employment of the Grantee at any time.

5. RELATION TO OTHER BENEFITS. Any economic or other benefit to the Grantee under this Agreement or the Plan shall not be taken into account in determining any benefits to which the Grantee may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Corporation or a Subsidiary and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Corporation or a Subsidiary.

6. AMENDMENTS. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; PROVIDED, HOWEVER, that no amendment shall adversely affect the rights of the Grantee under this Agreement without the Grantee's consent.

7. SEVERABILITY. In the event that one or more of the provisions of this Agreement is invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

8. GOVERNING LAW. This agreement is made under, and shall be construed in accordance with, the internal substantive laws of the State of Ohio.

This Agreement is executed by the Corporation as of the 1st day of September, 2000.

BRUSH ENGINEERED MATERIALS INC.

By: /s/ M. C. Hasychak

Name: Michael C. Hasychak

Title: V.P. Treasurer and Secretary

The undersigned hereby acknowledges receipt of an executed original of this Agreement Relating to Restricted Shares, certifies that he has surrendered to the Corporation options, dated January 22, 1991, to purchase 100,000 Common Shares at a price per share of \$16.25 and accepts the award of Restricted Shares granted hereunder on the terms and conditions set forth herein and in the 1995 Stock Incentive Plan.

Date: 9/1/00

/s/ Gordon D. Harnett

Gordon D. Harnett
Grantee

EXHIBIT 11

BRUSH ENGINEERED MATERIALS INC. AND SUBSIDIARIES

COMPUTATION OF PER SHARE EARNINGS

	THIRD QUARTER ENDED		NINE MONTHS ENDED	
	SEP. 29, 2000	OCT. 1, 1999	SEP. 29, 2000	OCT. 1, 1999
Basic:				
Average shares outstanding	16,315,523 =====	16,200,229 =====	16,248,733 =====	16,197,158 =====
Net income	\$ 4,084,000	\$ (552,000)	\$ 10,231,000	\$ 5,168,000
Per share amount	\$ 0.25 =====	\$ (0.03) =====	\$ 0.63 =====	\$ 0.32 =====
Diluted:				
Average shares outstanding	16,315,523	16,200,229	16,248,733	16,197,158
Dilutive stock options based on the treasury stock method using average market price	205,505 -----	-- -----	143,702 -----	64,720 -----
Totals	16,521,028 =====	16,200,229 =====	16,392,435 =====	16,261,878 =====
Net income	\$ 4,084,000	\$ (552,000)	\$ 10,231,000	\$ 5,168,000
Per share amount	\$ 0.25 =====	\$ (0.03) =====	\$ 0.62 =====	\$ 0.32 =====

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 01 2000
PERIOD END	SEP 29 2000
CASH	6,182
SECURITIES	0
RECEIVABLES	101,534
ALLOWANCES	1,744
INVENTORY	108,448
CURRENT ASSETS	250,924
PP&E	448,690
DEPRECIATION	280,699
TOTAL ASSETS	450,528
CURRENT LIABILITIES	97,205
BONDS	11,305
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	90,178
OTHER SE	137,781
TOTAL LIABILITY AND EQUITY	450,528
SALES	416,532
TOTAL REVENUES	416,532
CGS	329,912
TOTAL COSTS	399,548
OTHER EXPENSES	37
LOSS PROVISION	277
INTEREST EXPENSE	3,407
INCOME PRETAX	13,263
INCOME TAX	3,032
INCOME CONTINUING	10,231
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	10,231
EPS BASIC	0.63
EPS DILUTED	0.62

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