# BRUSH ENGINEERED MATERIALS INC 

FORM 8-K
(Unscheduled Material Events)

Filed 10/23/2003 For Period Ending 10/23/2003

| 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): October 23, 2003

# BRUSH ENGINEERED MATERIALS INC. 

(Exact Name of Registrant as Specified in Charter)

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

1-15885
(Commission
File Number)

Cleveland, Ohio (Address of Principal Executive Offices)

44110
(Zip Code)

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

## Item 12. Results of Operations and Financial Condiitions

On October 23, 2003, Brush Engineered Materials Inc. issued a press release announcing its third 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.

By: /s/Michael C. Hasychak<br>Vice President, Secretary and Treasurer

## BRUSH ENGINEERED MATERIALS INC. ANNOUNCES THIRD QUARTER FINANCIAL RESULTS

## Results

Cleveland, Ohio -- October 23, 2003 -- Brush Engineered Materials Inc. (NYSE-BW) today reported a net loss of \$3.1 million on sales of $\$ 94.2$ million for the third quarter of 2003 versus a net loss of $\$ 2.9$ million on sales of $\$ 93.5$ million for the third quarter of 2002. Diluted earnings per share was a loss of $\$ 0.18$ for the third quarter of 2003, unchanged from 2002.

The third quarter was positively affected by improved margins and lower overhead costs. Gross margin improved by $\$ 2.4$ million in the quarter compared to the prior year. As a percent of sales, gross margin grew $2.4 \%$ in the quarter compared to the prior year. The loss before income taxes for the quarter improved by $39 \%$ or $\$ 1.8$ million compared to the third quarter of 2002 . However, the third quarter 2002 pre-tax loss included a $\$ 2.0$ million benefit resulting from a favorable court ruling which enabled the Company to increase the recovery portion on insured legal claims that were previously subject to apportionment. Absent this benefit, the pre-tax improvement for the quarter would have been $\$ 3.8$ million or $57 \%$.

For the first nine months of 2003 the Company reported a net loss of $\$ 6.0$ million or $\$ 0.36$ per share diluted on sales of $\$ 295.5$ million versus a net loss of $\$ 8.8$ million or $\$ 0.53$ per share diluted on sales of $\$ 283.8$ million. The loss before income taxes year to date improved by $62 \%$ or $\$ 8.8$ 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 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 realization event occurs to support reversal of all or a portion of the reserve. Therefore, the Company's third quarter and year-to-date results include a tax provision of $\$ 0.2$ million and $\$ 0.6$ million, respectively, for certain foreign, state and local taxes but do not include a federal tax provision. In the third quarter and first nine months of 2002 a tax benefit of $\$ 1.8$ million and $\$ 5.5$ million, respectively, was recorded which reduced the net loss in those periods.

## Debt

The Balance Sheet debt at the end of the third quarter was reduced by $\$ 5.5$ million and $\$ 12.0$ million, respectively, from the end of the second quarter 2003 and December 31, 2002. As reported earlier, the Company is continuing to examine several refinancing alternatives. At this time the Company anticipates concluding on the assessment of the alternatives prior to December 31, 2003.

## 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 third quarter sales of $\$ 54.1$ million were down 5\% from third quarter 2002 sales of $\$ 57.0$ million. Year-to-date sales of $\$ 176.0$ million were about flat with sales of $\$ 176.4$ million for the first nine months of 2002.

The third quarter 2003 operating loss for the Metal Systems Group of $\$ 8.0$ million improved by $\$ 2.0$ million over the $\$ 10.0$ million operating loss for the third quarter of 2002. The operating loss for the first nine months of 2003 of $\$ 14.2$ million improved by $\$ 9.3$ million over the same period last year.

Alloy Products' 2003 third quarter sales of $\$ 36.8$ million were down $3 \%$ from third quarter 2002 sales. Year-to-date sales of $\$ 119.3$ million were up $2 \%$ over the same period last year. Weakness in the domestic market for Alloy Products was offset by strength from the computer and appliance markets, especially in Southeast Asia. In addition, there continues to be signs of strengthening in the oil and gas and aerospace market sectors. Alloy Products is also experiencing a favorable product mix with an increase in sales of its higher beryllium-containing alloys.

TMI's third quarter sales of $\$ 9.1$ million and year-to-date sales of $\$ 31.7$ million were down $16 \%$ and $9 \%$, respectively, over the same periods last year. While markets remained soft during the third quarter, recently, TMI is experiencing some strength in the automotive electronics, computer and semiconductor markets. It is anticipated that this recent trend will continue through the fourth quarter of 2003.

Beryllium Products' third quarter sales of $\$ 8.2$ million are flat with third quarter 2002 sales. The flat sales in the third quarter are due primarily to short-term defense program delays. Sales for the first nine months of 2003 were $\$ 25.0$ million, up approximately $2 \%$ above the same period last year. Beryllium Products has been experiencing an increased demand for its $\operatorname{AlBeMet}(\mathrm{R})$ materials and recently announced that its beryllium materials have been chosen for the mirrors on NASA's James Webb Space Telescope. The Webb Telescope mirrors will add approximately $\$ 15$ million of sales over the next three years.

## Microelectronics Group

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

The Microelectronics Group's sales for the third quarter of 2003 of $\$ 39.4$ million were up $15 \%$ over the third quarter of 2002. Sales for the first nine months of 2003 of $\$ 115.3$ million were up $13 \%$ over the first nine months of 2002 . Operating profit for the third quarter was $\$ 3.8$ million, up $\$ 2.5$ million over the third quarter of 2002 . Operating profit for the first nine months of $\$ 9.8$ million was up $\$ 4.8$ million over the first nine months of 2002.

WAM's third quarter 2003 sales of $\$ 31.9$ million were up $18 \%$ above third quarter 2002 sales of $\$ 27.1$ million. Year-to-date sales of $\$ 92.1$ million were up $15 \%$ above the same period last year. It is anticipated that WAM's broad market and product diversity will continue to provide stable revenue through the remainder of 2003. As a leading worldwide supplier to the digital versatile disc market, the seasonal holiday volume buildup should favorably impact fourth quarter 2003 revenue. In addition, WAM has experienced recent strength from the wireless telecommunications handset market for its thin film and traditional electronic packaging products.

Electronic Products' 2003 third quarter sales of $\$ 7.5$ million and year-to-date sales of $\$ 23.2$ million were up $4 \%$ as compared to both periods last year.

## Outlook

The Company noted that while there are indications of a strengthening in the end-use markets it serves, forecasting future sales levels remains a challenge due to short lead times and mixed domestic economic conditions. Order entry in September and thus far in October has been encouraging but the lack of visibility across the Company's major markets makes it difficult to identify if this strength will continue through the remainder of the quarter. At this time, it is expected that fourth quarter 2003 sales will be 3 to $8 \%$ greater than the prior year fourth quarter sales of $\$ 89$ million.

## Chairman's Comments

Commenting on the results, Gordon D. Harnett, Chairman, President and Chief Executive Officer, stated, "We continued to make improvements during the quarter in our manufacturing operations through our Lean Six Sigma manufacturing efforts. We remain focused on several initiatives aimed at sales growth, broadening product breadth and diversifying our end-use markets as keys to improving profitability."

## 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:
$|X|$ 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.
|X| Actual sales in the fourth quarter 2003.
$|\mathrm{X}|$ Changes in product mix and the financial condition of particular customers.
$|X|$ The Company's success in implementing its strategic plans and the timely and successful completion of any capital expansion projects.
$|\mathrm{X}|$ The availability of adequate lines of credit and the associated cost and interest rates.
$|\mathrm{X}|$ Other financial factors, including tax rates, exchange rates, pension costs, energy costs and the cost and availability of insurance.
$|\mathrm{X}|$ Changes in government regulatory requirements and the enactment of new legislation that impacts the Company's obligations.
$|\mathrm{X}|$ 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:

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216/383-6823

## Media:

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# Brush Engineered Materials Inc. 

## Digest of Earnings

September 26, 2003

|  |  | 2003 |  | 2002 |
| :---: | :---: | :---: | :---: | :---: |
| Third Quarter 2003 |  |  |  |  |
| Net Sales | \$ | 94,156,000 | \$ | 93,481,000 |
| Net Loss | (\$ | 3,060,000) | (\$ | 2,906,000) |
| Share Earnings - Basic |  | (\$0.18) |  | (\$0.18) |
| Average Shares - Basic |  | 16,563,098 |  | 16,558,417 |
| Share Earnings - Diluted |  | (\$0.18) |  | (\$0.18) |
| Average Shares - Diluted |  | 16,563,098 |  | 16,558,417 |
| Year-to-date |  |  |  |  |
| Net Sales | \$ | 295,479,000 | \$ | 283,812,000 |
| Net Loss | (\$ | 6,039,000) | (\$ | 8,788,000) |
| Share Earnings - Basic |  | (\$0.36) |  | (\$0.53) |
| Average Shares - Basic |  | 16,562,559 |  | 16,557,026 |
| Share Earnings - Diluted |  | (\$0.36) |  | (\$0.53) |
| Average Shares - Diluted |  | 16,562,559 |  | 16,557,026 |


| (DOLLARS IN THOUSANDS) | $\begin{gathered} \text { SEPT. } 26, \\ 2003 \end{gathered}$ | $\begin{aligned} & \text { DEC. 31, } \\ & 2002 \end{aligned}$ |
| :---: | :---: | :---: |
| ASSETS |  |  |
| CURRENT ASSETS |  |  |
| CASH AND CASH EQUIVALENTS | \$ 4,804 | \$ 4,357 |
| ACCOUNTS RECEIVABLE | 56,922 | 47,543 |
| INVENTORIES | 88,034 | 94,324 |
| PREPAID EXPENSES | 4,626 | 9,766 |
| DEFERRED INCOME TAXES | 757 | 244 |
| TOTAL CURRENT ASSETS | 155,143 | 156,234 |
| OTHER ASSETS | 25,576 | 25,629 |
| LONG-TERM DEFERRED INCOME TAXES | 242 | 472 |
| PROPERTY, PLANT AND EQUIPMENT | 482,053 | 476,283 |
| LESS ALLOWANCES FOR DEPRECIATION, |  |  |
| DEPLETION AND IMPAIRMENT | 339,568 | 323,739 |
|  | 142,485 | 152,544 |
|  | \$323,446 | \$334,879 |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |
| CURRENT LIABILITIES |  |  |
| SHORT-TERM DEBT | \$ 39,262 | \$ 27,235 |
| ACCOUNTS PAYABLE | 15,770 | 15,129 |
| OTHER LIABILITIES AND ACCRUED ITEMS | 35,250 | 30,439 |
| INCOME TAXES | 1,046 | 786 |
| TOTAL CURRENT LIABILITIES | 91,328 | 73,589 |
| OTHER LONG-TERM LIABILITIES | 15,831 | 17,459 |
| RETIREMENT AND POST-EMPLOYMENT BENEFITS | 50,506 | 48,518 |
| LONG-TERM DEBT | 12,185 | 36,219 |
| MINORITY INTEREST IN SUBSIDIARY | 48 | -- |
| SHAREHOLDERS' EQUITY | 153,548 | 159,094 |
|  | \$323,446 | \$334,879 |

## SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| (Dollars in thousands <br> except share and per share amounts) | $\begin{aligned} & \text { Third Q } \\ & \text { Sept. } 26 \text {, } \\ & 2003 \end{aligned}$ |  | $\begin{aligned} & \text { Ended } \\ & \text { Sept. } 27, \\ & 2002 \end{aligned}$ |  | Nine M <br> Sept. 26, <br> 2003 |  | Ended <br> Sept. 27, 2002 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net sales | \$ | 94,156 | \$ | 93,481 | \$ | 295,479 | \$ | 283,812 |
| Cost of sales |  | 79,786 |  | 81,466 |  | 245,132 |  | 246,473 |
| Gross Margin |  | 14,370 |  | 12,015 |  | 50,347 |  | 37,339 |
| Selling, general and administrative expenses |  | 14,299 |  | 13,986 |  | 48,208 |  | 46,134 |
| Research and development expenses |  | 998 |  | 1,003 |  | 3,034 |  | 3,177 |
| Other-net |  | 1,455 |  | 952 |  | 2,594 |  | 20 |
| Operating Loss |  | $(2,382)$ |  | $(3,926)$ |  | $(3,489)$ |  | $(11,992)$ |
| Interest expense |  | 490 |  | 776 |  | 1,933 |  | 2,275 |
| Loss before income taxes |  | $(2,872)$ |  | $(4,702)$ |  | $(5,422)$ |  | $(14,267)$ |
| Minority Interest |  | (2) |  | -- |  | (24) |  | -- |
| Income taxes |  | 190 |  | $(1,796)$ |  | 641 |  | $(5,479)$ |
| Net Loss | \$ | $(3,060)$ | \$ | $(2,906)$ | \$ | $(6,039)$ | \$ | $(8,788)$ |
| Per Share of Common Stock: Basic | \$ | (0.18) | \$ | (0.18) | \$ | (0.36) | \$ | (0.53) |
| Weighted average number |  |  |  |  |  |  |  |  |
| of common shares outstanding |  | 63,098 |  | 58,417 |  | 562,559 |  | 557,026 |
| Per Share of Common Stock: Diluted | \$ | (0.18) | \$ | (0.18) | \$ | (0.36) | \$ | (0.53) |
| Weighted average number of common shares outstanding |  | 63,098 |  | 58,417 |  | 562,559 |  | 557,026 |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## (UNAUDITED)

| (Dollars in thousands) | $\begin{aligned} & \text { NINE MO } \\ & \text { SEPT. } 26, \\ & 2003 \end{aligned}$ | $\begin{aligned} & \text { S ENDED } \\ & \text { SEPT. 27, } \\ & 2002 \end{aligned}$ |
| :---: | :---: | :---: |
| NET LOSS | (\$ 6,039) | (\$ 8,788) |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES: |  |  |
| Depreciation, depletion and amortization | 15,562 | 15,484 |
| Decrease (Increase) in accounts receivable | $(8,919)$ | $(3,936)$ |
| Decrease (Increase) in inventory | 7,142 | 17,131 |
| Decrease (Increase) in prepaid and other current assets | 5,169 | 1,434 |
| Increase (Decrease) in accounts payable and accrued expenses | 3,292 | $(2,070)$ |
| Increase (Decrease) in interest and taxes payable | 230 | $(2,503)$ |
| Increase (Decrease) in deferred income taxes | 73 | (283) |
| Increase (Decrease) in other long-term liabilities | 140 | $(5,667)$ |
| Other - net | 1,421 | 1,008 |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 18,071 | 11,810 |
| CASH FLOWS FROM INVESTING ACTIVITIES: |  |  |
| Payments for purchase of property, plant and equipment | $(4,760)$ | $(3,899)$ |
| Payments for mine development | (137) | (58) |
| Proceeds from sale of property, plant and equipment | 34 | 140 |
| NET CASH (USED IN) INVESTING ACTIVITIES | $(4,863)$ | $(3,817)$ |
| CASH FLOWS FROM FINANCING ACTIVITIES: |  |  |
| Repayment of short-term debt | $(10,729)$ | $(10,633)$ |
| Proceeds from issuance of long-term debt | 2,000 | 12,000 |
| Repayment of long-term debt | $(4,034)$ | $(13,000)$ |
| NET CASH (USED IN) FINANCING ACTIVITIES | $(12,763)$ | $(11,633)$ |
| Effects of Exchange Rate Changes | 2 | (159) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 447 | $(3,799)$ |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 4,357 | 7,014 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 4,804 | \$ 3,215 |

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 26, 2003 and December 31, 2002 and the results of operations for the three and nine month periods ended September 26, 2003 and September 27, 2002. All of the adjustments were of a normal and recurring nature.

## NOTE B - INVENTORIES

| (Dollars in thousands) |  | $\begin{gathered} \text { SEPT. } 26 \\ 2003 \end{gathered}$ |  | $\begin{gathered} \text { OEC. 31, } \\ 2002 \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: |
| Principally average cost: |  |  |  |  |
| Raw materials and supplies |  | 25,088 |  | 22,572 |
| In process |  | 64,525 |  | 65,809 |
| Finished goods |  | 23,655 |  | 29,522 |
| Gross inventories |  | 113,268 |  | 17,903 |
| Excess of average cost over LIFO |  |  |  |  |
| Inventory value |  | 25,234 |  | 23,579 |
| Net inventories |  | 88,034 |  | 94,324 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS <br> (UNAUDITED)

## NOTE C - COMPREHENSIVE LOSS

The reconciliation between Net Loss and Comprehensive Loss for the three and nine month periods ended September 26, 2003 and September 27, 2002 is as follows:

| (Dollars in thousands) |  | $\begin{aligned} & \text { THIRI } \\ & \text { SEPT. } \\ & 2003 \end{aligned}$ | , | $\begin{aligned} & \text { NDED } \\ & \text { EPT. } 27, \\ & 2002 \end{aligned}$ |  | $\begin{aligned} & \text { NINE } \\ & \text { EPT. } 26, \\ & 2003 \end{aligned}$ | END | $\begin{aligned} & \text { ED } \\ & \text { PT. } 27 \text {, } \\ & 2002 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net Loss | \$ | $(3,060)$ | \$ | $(2,906)$ | \$ | $(6,039)$ | \$ | $(8,788)$ |
| Cumulative Translation Adjustment |  | 344 |  | (118) |  | 274 |  | 627 |
| Change in the Fair Value of Derivative Financial Instruments |  | 2,031 |  | $(1,790)$ |  | 131 |  | $(4,957)$ |
| Comprehensive Loss | \$ | (685) | \$ | $(4,814)$ |  | $(5,634)$ |  | $(13,118)$ |

## NOTE D - SEGMENT REPORTING

|  | Metal <br> Systems | Micro- <br> Electronics | Total <br> Segments | All <br> Other |
| :--- | ---: | ---: | ---: | ---: | ---: |
| (Dollars in thousands) |  |  |  |  |

Third Quarter 2002

| Revenues from external customers | \$ | 56,966 | \$ | 34,269 | \$ | 91,235 | \$ | 2,246 | \$ | 93,481 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Intersegment revenues |  | 894 |  | 444 |  | 1,338 |  | 3,275 |  | 4,613 |
| Profit (loss) before interest and taxes |  | $(9,975)$ |  | 1,290 |  | $(8,685)$ |  | 4,759 |  | $(3,926)$ |

First Nine Months 2003

| Revenues from external customers | \$ | 175,951 | \$ | 115,316 | \$ | 291,267 | \$ | 4,212 | \$ | 295,479 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Intersegment revenues |  | 2,290 |  | 751 |  | 3,041 |  | 10,725 |  | 13,766 |
| Profit (loss) before interest and taxes |  | $(14,235)$ |  | 9,814 |  | $(4,421)$ |  | 932 |  | $(3,489)$ |
| First Nine Months 2002 |  |  |  |  |  |  |  |  |  |  |
| Revenues from external customers | \$ | 176,420 | \$ | 102,295 | \$ | 278,715 | \$ | 5,097 | \$ | 283,812 |
| Intersegment revenues |  | 2,261 |  | 1,401 |  | 3,662 |  | 9,907 |  | 13,569 |
| Profit (loss) before interest and taxes |  | $(23,574)$ |  | 4,959 |  | $(18,615)$ |  | 6,623 |  | $(11,992)$ |

