# BRUSH WELLMAN INC 

FORM 10-Q<br>(Quarterly Report)

# Filed 8/10/1995 For Period Ending 7/2/1995 

| Address | 17876 ST CLAIR AVE |
| :--- | :--- |
|  | CLEVELAND, Ohio 44110 |
| Telephone | $216-486-4200$ |
| CIK | 0000014957 |
| Fiscal Year | $12 / 31$ |


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# UNITED STATES SECURITIES AND EXCHANGE <br> COMMISSION <br> Washington, D.C. 20549 FORM 10-Q 

(Mark One)

## | X | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE <br> | | SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 2, 1995

For the transition period from $\qquad$ to $\qquad$

Commission file number 1-7006

## BRUSH WELLMAN INC.

(Exact name of Registrant as specified in charter)

## OHIO

(State or other jurisdiction of incorporation or organization)

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

As of August 2, 1995 there were 16,235,424 shares of Common Stock, par value $\$ 1$ per share, outstanding.

## BRUSH WELLMAN INC. AND SUBSIDIARIES

## Item 1. Financial Statements

The consolidated financial statements of Brush Wellman Inc. and its subsidiaries for the quarter ended July 2, 1995 are as follows:

Consolidated Statements of Income - Six months ended July 2, 1995 and July 3, 1994

Consolidated Balance Sheets -
July 2, 1995 and December 31, 1994

Consolidated Statements of Cash Flows - Six months ended July 2, 1995 and July 3, 1994

Notes to consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| (DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS) | $\begin{aligned} & \text { SECOND } \\ & \text { JULY 2, } \\ & 1995 \end{aligned}$ | $\begin{aligned} & \text { QUARTER ENDED } \\ & \text { JULY 3, } \\ & 1994 \end{aligned}$ | $\begin{aligned} & \text { FIRST HA } \\ & \text { JULY 2, } \\ & 1995 \end{aligned}$ | $\begin{aligned} & \text { ENDED } \\ & \text { JULY 3, } \\ & 1994 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: |
| NET SALES | \$97,283 | \$86,560 | \$196,194 | \$171,354 |
| COSTS AND EXPENSES: |  |  |  |  |
| COSt Of SALES | 70,042 | 61,567 | 141,581 | 123,168 |
| SELLING, ADMINISTRATIVE |  |  |  |  |
| And GEnERAL EXPENSES | 15,754 | 13,121 | 31,262 | 25,739 |
| RESEARCH AND DEVELOPMENT |  |  |  |  |
| EXPENSES | 1,996 | 2,189 | 3,816 | 4,376 |
| Interest expense | 349 | 449 | 861 | 920 |
| OTHER-NET | 84 | 1,063 | 380 | 1,836 |
|  | 88,225 | 78,389 | 177,900 | 156,039 |
| INCOME BEFORE INCOME TAXES | 9,058 | 8,171 | 18,294 | 15,315 |
| INCOME TAXES | 2,382 | 2,279 | 4,830 | 3,828 |
| NET INCOME | \$6,676 | \$5,892 | \$13,464 | \$11,487 |
| PER SHARE OF COMMON STOCK: | \$0.40 | \$0.36 | \$0.82 | \$0.71 |
| CASH DIVIDENDS PER COMMON SHARE | \$0.08 | \$0.05 | \$0.16 | \$0.10 |
| WEIGHTED AVERAGE NUMBER <br> OF COMMON SHARES OUTSTANDING | ,503,398 | 16,204,652 | 16,483,041 | $16,165,713$ |

## SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

| (DOLLARS IN THOUSANDS) | $\begin{aligned} & \text { JULY 2, } \\ & 1995 \end{aligned}$ | $\begin{gathered} \text { DEC. 31, } \\ 1994 \end{gathered}$ |
| :---: | :---: | :---: |
| ASSETS |  |  |
| CURRENT ASSETS |  |  |
| CASH AND CASH EQUIVALENTS | \$24,534 | \$20,441 |
| ACCOUNTS RECEIVABLE | 61,512 | 52,272 |
| INVENTORIES | 94,656 | 93,601 |
| PREPAID EXPENSES AND OTHER |  |  |
| CURRENT ASSETS | 15,965 | 14,903 |
| TOTAL CURRENT ASSETS | 196,667 | 181,217 |
| OTHER ASSETS | 18,519 | 19,153 |
| PROPERTY, PLANT AND EQUIPMENT | 360,352 | 350,811 |
| LESS ALLOWANCES FOR DEPRECIATION, DEPLETION AND IMPAIRMENT | 244,172 | 234,048 |
| PROPERTY, PLANT AND EQUIPMENT--NET | 116,180 | 116,763 |
|  | \$331,366 | \$317,133 |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |
| CURRENT LIABILITIES |  |  |
| SHORT-TERM DEBT | \$19,628 | \$20,643 |
| ACCOUNTS PAYABLE | 10,470 | 8,861 |
| OTHER LIABILITIES AND ACCRUED |  |  |
| ITEMS | 27,527 | 26,649 |
| DIVIDENDS PAYABLE |  | 1,288 |
| INCOME TAXES | 10,468 | 8,482 |
| TOTAL CURRENT LIABILITIES | 68,093 | 65,923 |
| OTHER LONG-TERM LIABILITIES | 42,791 | 41,940 |
| LONG-TERM DEBT | 18,397 | 18,527 |
| DEFERRED INCOME TAXES | 3,280 | 3,803 |
| SHAREHOLDERS' EQUITY | 198,805 | 186,940 |
|  | \$331,366 | \$317,133 |

## SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (Dollars in thousands) | FIRST HALF ENDED |  |
| :---: | :---: | :---: |
|  | $\begin{gathered} \text { JULY 2, } \\ 1995 \end{gathered}$ | $\begin{gathered} \text { JULY 3, } \\ 1994 \end{gathered}$ |
| NET INCOME | \$13,464 | \$11,487 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH |  |  |
| PROVIDED FROM OPERATING ACTIVITIES: |  |  |
| Depreciation, depletion and amortization | 10,051 | 9,270 |
| Amortization of mine development | 951 | 721 |
| Decrease (Increase) in accounts receivable | $(6,560)$ | $(8,291)$ |
| Decrease (Increase) in Inventory | $(1,055)$ | 192 |
| Decrease (Increase) in prepaid and other current assets | (889) | (301) |
| Increase (Decrease) in accounts payable and accrued expenses | 556 | 5,217 |
| Increase (Decrease) in interest and taxes payable | 1,647 | 1,757 |
| Increase (Decrease) in deferred income tax | (523) | (723) |
| Other - net | 544 | 739 |
| NET CASH PROVIDED FROM OPERATION ACTIVITIES | 18,186 | 20,068 |
| Cash Flows from Investing Activities: |  |  |
| Payments for purchase of property, plant and equipment | $(9,838)$ | $(8,911)$ |
| Payments for mine development | (515) | (253) |
| Proceeds from (Payment for) other investments | 668 |  |
| NET CASH USED IN INVESTING ACTIVITIES | $(9,685)$ | $(9,164)$ |
| Cash Flows from Financing Activities: |  |  |
| Proceeds from (Repayment of) short-term debt - net | $(2,347)$ | 618 |
| Proceeds from (Repayment of) long-term debt- net | (393) | (344) |
| Issuance of Common Stock under stock option plans | 987 | 162 |
| Payments of dividends | $(3,876)$ | $(2,414)$ |
| NET CASH USED IN FINANCING ACTIVITIES | $(5,629)$ | $(1,978)$ |
| Effects of Exchange Rate Changes | 1,221 | 1,222 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 4,093 | 10,148 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 20,441 | 7,690 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$24,534 | \$17,838 |

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)
July 2, 1995

## NOTE A - ACCOUNTING POLICIES

In management's opinion, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position as of July 2, 1995 and December 31, 1994 and the results of operations for the the three and six months ended July 2, 1995 and July 3, 1994.

## NOTE B - INVENTORIES

| (Dollars in thousands) | $\begin{gathered} \text { July 2, } \\ 1995 \end{gathered}$ | $\begin{gathered} \text { Dec 31, } \\ 1994 \end{gathered}$ |
| :---: | :---: | :---: |
| Principally average cost: |  |  |
| Raw materials and supplies | \$19,382 | \$21,020 |
| In Process | 56,956 | 55,008 |
| Finished | 42,363 | 39,530 |
|  | 118,701 | 115,558 |
| Excess of average cost over |  |  |
| LIFO inventory value | 24,045 | 21,957 |
|  | \$94,656 | \$93,601 |

## Item 2. Management's Discussion and Analysis

## Results of Operations

Second quarter sales of $\$ 97$ million represent a $12 \%$ increase over the second quarter 1994. Sales of Alloy, Ceramic and Specialty Metal Products increased over last year. International sales, primarily Alloy Products, totaled $\$ 37$ million and accounted for $38 \%$ of total second quarter sales as compared to $\$ 26$ million or $30 \%$ of sales in the second quarter 1994. The majority of the international growth was due to higher volume, although sales were favorably affected by the impact of currency rates on revenues generated outside the United States.

Sales of Alloy Products increased significantly in second quarter 1995 as compared to the second quarter 1994. Application development efforts and continued strength in key markets, including automotive electronics, telecommunications and computers, helped fuel this increase in sales. Sales in 1995 were also favorably impacted by the higher pass-through commodity costs, primarily copper, and foreign currency exchange rates.

Beryllium Products sales decreased in the second quarter 1994, but were flat with the first quarter 1995. Efforts continue to be focused on development of new products and applications in the aerospace and avionics markets to offset the absence of sales to the Defense Logistics Agency stockpile.

Ceramic Products showed strong growth over last year. The key markets for these products are telecommunications, which may now be softening slightly for these products, and automotive electronics. The continued successful development and
expansion of products based on direct bond copper technology helped to increase sales.

Sales of Specialty Metal Systems also increased significantly in the second quarter as compared to the year-ago period. The increase is due, in part, to market development application efforts, quality improvements and a continued penetration into the Asian markets.

Sales of Precious Metal Products were flat with the second quarter 1994. Sales of frame lid assemblies have, and are expected to continue to, decline over the balance of this year. The continued development of the vapor deposition target business, the transition into the precious metal ultra-fine wire market and strong results from the refining operations have helped to offset the decline in the frame lid assembly volume.

Gross margin (sales less cost of sales) increased to $\$ 27$ million for the quarter as compared to $\$ 25$ million last year. The margin percent, however, decreased slightly to $28.0 \%$ from $28.9 \%$ in 1994 . The decreased margin percentage was caused by a product mix shift towards lower margin products, the effect of the higher pass through commodity costs and a slight decrease in manufacturing performance.

Sales for the first half of 1995 were $\$ 196$ million, an increase of $14 \%$ over 1994. All product lines, except Beryllium Products, increased in 1995 with Alloy Products and Specialty Metal Systems showing the largest increases. International sales were also up significantly in the first half. Gross margin for the half decreased slightly to $27.8 \%$ of sales from $28.1 \%$ last year. The factors affecting second quarter gross margin also apply to first half performance.

Selling, administrative and general expenses were $\$ 15.8$ million or $16 \%$ of sales in the second quarter compared to $\$ 13.1$ million or $15 \%$ of sales in the second quarter 1994. Year-to-date expenses totaled $\$ 31.3$ million compared to $\$ 25.7$ million last year. Causes of the increases include the Alloy Products process re-design effort that was started in the third quarter 1994, start-up costs associated with a subsidiary in Singapore established in the first quarter to provide marketing support in South Asia, a higher volume of sales-related activity and an increased incentive compensation accrual.

Research and development expenses were $\$ 3.8$ million for the first half 1995 compared to $\$ 4.4$ million in the first half 1994. Second half 1995 expenditures should be in line with the first half.

Other-net expense was $\$ 0.4$ million for the half compared to $\$ 1.8$ million in the first half 1994 . This category includes non-operating items such as currency exchange and translation effects, goodwill amortization and interest income. The major changes in 1995 are from currency exchange gains and an increase in interest income from a higher level of investments with a higher average effective interest rate.

Interest expense decreased $22 \%$ for the quarter and $6 \%$ for the year as compared to 1994 . The primary cause was an increase in capitalized interest on active capital projects in the second quarter 1995.

Income before income taxes was $\$ 9.1$ million for the quarter and $\$ 18.3$ for the year, compared to $\$ 8.2$ million and $\$ 15.3$ million, respectively, for 1994. The higher sales volume and the resulting gross margin partially offset by the increase in expenses account for the increase. Income taxes were provided for at an effective rate of $26.3 \%$
of pre-tax income in the second quarter and $26.4 \%$ for the first half. For the first half 1994, an effective rate of $25.0 \%$ was employed. The higher rate results from the increased pre-tax earnings and lower available tax credits. Earnings per share were $\$ 0.40$ in the second quarter and $\$ 0.82$ for the first half as compared to $\$ 0.36$ and $\$ 0.71$ in 1994.

## Financial Condition

Net cash provided from operating activities was $\$ 18.2$ million during first half 1995 as compared to $\$ 20.1$ million in the 1994 comparable period.

Accounts receivable increased $\$ 9$ million or $18 \%$ since year-end 1994. The increase is primarily due to the increase in sales and a higher proportion of international receivables.

Inventories have remained fairly constant despite the increased sales volume due to an increase in inventory turns and operating efficiencies.

Capital expenditures for property, plant and equipment amounted to $\$ 9.9$ million during first half 1995 and are expected to exceed the $\$ 17$ million spent in 1994.

Total debt decreased by $\$ 1$ million during first half 1995. Long-term debt at the end of the quarter was $9 \%$ of total capital.

The average number of outstanding shares increased to 16.5 million due to the implementation of a restricted stock plan for key employees and the exercisability of previously issued stock options.

## PART II OTHER INFORMATION

## Item 1. Legal Proceedings

(a) Beryllium Exposure Claims Claims Concluded Since the End of First Quarter 1995. Steven Campbell filed suit against the Company in the Superior Court for Orange County, California, on January 3, 1992, for which service of process on the Company occurred in January, 1992. This claim was reported on the Company's annual report on Form 10-K for the year ended December 31, 1994. Mr. Campbell claimed that, while he was an employee of an alleged customer of the Company, he contracted chronic beryllium disease as a result of exposure to beryllium and beryllium-containing products. Mr. Campbell sought compensatory and punitive damages of an unspecified amount. This case was settled and dismissed with prejudice by the Court on February 21, 1995.

Ray Amante filed suit against the Company in the Superior Court for Orange County, California on January 14, 1992, for which service of process on the Company occurred on April 7, 1992. This claim was reported on the Company's annual report on Form 10-K for the year ended December 31, 1994. Mr. Amante claimed that, while he was an employee of an alleged customer of the Company, he contracted berylliosis as a result of exposure to beryllium and beryllium-containing products. Mr. Amante sought compensatory and punitive damages of an unspecified amount. This case was settled and dismissed with prejudice by the Court on February 21, 1995.

John W. Rosenbauer and his wife filed suit against the Company in the Court of Common Pleas, Westmoreland County, Pennsylvania, on February 7, 1995, for which service of process on the Company occurred on February 15, 1989. This
claim was reported on the Company's annual report on Form 10-K for the year ended December 31, 1994. Mr. Rosenbauer claimed that, while he was an employee of an alleged customer of the Company, he contracted chronic beryllium disease as a result of exposure to beryllium and beryllium-containing products. Mrs. Rosenbauer claimed loss of consortium. The total damages in this case were claimed to be in excess of $\$ 20,000$. This case was settled and dismissed with prejudice the Court on December 19, 1994.

## Recent Developments Relating to Pending Claims Since April 2, 1995.

Geraldine Ruffin, individually and as executrix of the estate of her husband John H. P. Ruffin, filed suit against the Company in the Superior Court of New Jersey, Essex County, on September 25, 1991, for which service of process on the Company occurred on October 9, 1991. This claim was reported on the Company's annual report on Form 10-K for the year ended December 31, 1994. Mrs. Ruffin claimed that, while her husband was employed by Norfolk Naval Shipyard, he sustained injuries, resulting in his death, as a result of exposure to beryllium and beryllium-containing products. Mrs. Ruffin sought compensatory and punitive damages of an unspecified amount. On March 31, 1995, the Court granted defendants' motion for summary judgment with respect to Mrs. Ruffin's claims, as reported on the Company's quarterly report on Form 10-Q for the quarter ended April 2, 1995. Plaintiff filed a notice of appeal in May, 1995. The Company believes that resolution of any such appeal would not have a material adverse effect on the Company.
(b) Asbestos Exposure Claims A subsidiary of the Company (the "Subsidiary") is a co-defendant in nineteen cases making claims for asbestosinduced illness allegedly relating to the
former operations of the Subsidiary, then known as The S.K. Wellman Corp. All of these cases have been reported in prior filings with the S.E.C. The Subsidiary is one of a large number of defendants in each case. The plaintiffs seek compensatory and punitive damages, in most cases of unspecified sums. Each case has been referred to a liability insurance carrier for defense. With respect to those referrals on which a carrier has acted to date, a carrier has accepted the defense of the actions, without admitting or denying liability. Two hundred twenty-four similar cases previously reported have been dismissed or disposed of by pre-trial judgment, one by jury verdict of no liability and ten others by settlement for nominal sums. The Company believes that resolution of the pending cases referred to above will not have a material effect upon the Company.

The Subsidiary has entered into an agreement with the predecessor owner of its operating assets, Pneumo Abex Corporation (formerly Abex Corporation), and five insurers, regarding the handling of these cases. Under the agreement, the insurers share expenses of defense, and the Subsidiary, Pneumo Abex Corporation and the insurers share payment of settlements and/or judgments. In eleven of the pending cases, both expenses of defense and payment of settlements and/or judgments are subject to a limited, separate reimbursement agreement with MLX Corp., the parent of the company that purchased the Subsidiary's operating assets in 1986.

## Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
11. Statement re: computation of per share earnings.
27. Financial Data Schedule.
(b) Reports on Form 8-K There have been no reports on Form 8-K during the quarter ended July 2, 1995.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

## BRUSH WELLMAN INC.

## Dated: August 10, 1995

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/s/ Carl Cramer
Carl Cramer
Vice President Finance and
Chief Financial Officer
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BRUSH WELLMAN INC. AND SUBSIDIARIES

## COMPUTATION OF PER SHARE EARNINGS

|  | SECOND QUARTER ENDED |  | SIX MONTHS ENDED |  |
| :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { July 2, } \\ 1995 \end{gathered}$ | $\begin{gathered} \text { July 3, } \\ 1994 \end{gathered}$ | $\begin{aligned} & \text { July 2, } \\ & 1995 \end{aligned}$ | $\begin{gathered} \text { July 3, } \\ 1994 \end{gathered}$ |
| Primary: |  |  |  |  |
| Average shares outstanding | 16,199,937 | 16,093,442 | 16,174,254 | 16,090,655 |
| Dillutive stock options based on the treasury stock method using average market price <br> TOTALS | 261,874 | 111,210 | 193,212 | 75,058 |
|  | 16,461,811 | 16,204,652 | 16,367,466 | 16,165,713 |
| Net Income | \$6,676,000 | \$5,892,000 | \$13,464,000 | \$11,487,000 |
| Per share amount | \$0.41 | \$0.36 | \$0.82 | \$0.71 |
| Fully diluted: |  |  |  |  |
| Average shares outstanding | 16,199,937 | 16,093,442 | 16,174,254 | 16,090,655 |
| Dillutive stock options based on the treasury stock method using average market price | 303,461 | 111,210 | 308,787 | 75,058 |
| TOTAL | 16,503,398 | 16,204,652 | 16,483,041 | 16,165,713 |
| Net Income | \$6,676,000 | \$5,892,000 | \$13,464,000 | \$11,487,000 |
| Per share amount | \$0.40 | \$0.36 | \$0.82 | \$0.71 |

## ARTICLE 5

MULTIPLIER: 1,000

| PERIOD TYPE | 6 MOS |
| :--- | ---: |
| FISCAL YEAR END | DEC 311995 |
| PERIOD START | JAN 011995 |
| PERIOD END | JUL 021995 |
| CASH | 24,534 |
| SECURITIES | 0 |
| RECEIVABLES | 61,512 |
| ALLOWANCES | 1,055 |
| INVENTORY | 94,656 |
| CURRENT ASSETS | 196,667 |
| PP\&E | 360,352 |
| DEPRECIATION | 244,172 |
| TOTAL ASSETS | 331,366 |
| CURRENT LIABILITIES | 68,093 |
| BONDS | 18,397 |
| COMMON | 21,321 |
| PREFERRED MANDATORY | 0 |
| PREFERRED | 0 |
| OTHER SE | 177,484 |
| TOTAL LIABILITY AND EQUITY | 331,366 |
| SALES | 196,194 |
| TOTAL REVENUES | 196,194 |
| CGS | 141,581 |
| TOTAL COSTS | 176,659 |
| OTHER EXPENSES | 341 |
| LOSS PROVISION | 39 |
| INTEREST EXPENSE | 861 |
| INCOME PRETAX | 18,294 |
| INCOME TAX | 4,830 |
| INCOME CONTINUING | 13,464 |
| DISCONTINUED | 0 |
| EXTRAORDINARY | 0 |
| CHANGES | 0 |
| NET INCOME | 13,464 |
| EPS PRIMARY | .82 |
| EPS DILUTED | .82 |

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