

# BRUSH WELLMAN INC

## FORM 8-K

(Unscheduled Material Events)

Filed 7/27/1998 For Period Ending 7/27/1998

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

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 8-K

### CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 27, 1998

## BRUSH WELLMAN INC.

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(exact name of registrant as specified in its charter)

Ohio	1-7006	34-0119320
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(State or other juris- diction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)
17876 St. Clair Avenue	Cleveland, Ohio	44110
-----	-----	-----
(Address of principal executive offices)		(Zip Code)

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

## **Item 5. Other Events**

On July 27, 1998, Brush Wellman Inc. issued a press release, a copy of which is attached as Exhibit 99 hereto.

## **Item 7. Financial Statements, Pro Forma Financial Information and Exhibits**

(C) Exhibits

99 Press Release, dated July 27, 1998

### **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 WELLMAN INC.**

*Date: July 27, 1998*

*By: /s/ Carl Cramer*

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*Carl Cramer*  
*Vice President Finance and*  
*Chief Financial Officer*

## INDEX TO EXHIBITS

Exhibit Number -----	Description of Exhibit -----
99	Press Release, dated July 27, 1998

**BRUSH WELLMAN REPORTS SECOND QUARTER 1998 RESULTS**

**FOR IMMEDIATE RELEASE**

CLEVELAND, Ohio -- July 27, 1998 -- Brush Wellman Inc. (NYSE-BW) today reported a net loss for the second quarter 1998 of \$13.1 million, or \$0.80 per share, diluted. This compares with net income of \$7.5 million and diluted earnings per share of \$0.46 in the second quarter 1997. The second quarter 1998 loss primarily resulted from charges for asset write-downs and reserves totaling \$15.6 million after taxes, with a per share impact of \$0.95. The total pre-tax charge was \$21.8 million. The asset write-downs reflect reductions in the carrying value of various assets relating to Alloy, Beryllium and Ceramic Products, including certain fixed assets, goodwill, and inventory. The reserves were taken principally in support of a plan to pursue a voluntary environmental remediation of a former manufacturing site under the State of Ohio's Voluntary Action Program. Absent these items, the Company achieved net income of \$2.5 million and earnings of \$0.15 per share, diluted.

Sales during the second quarter 1998 totaled \$103 million, down 9% from second quarter 1997 sales of \$113 million. Second quarter sales declined in all major lines of business except Beryllium Products. The decreases in sales relative to the second quarter 1997 reflect principally three factors. First, Williams Advanced Materials Inc. (WAM), working with customers, began to switch them from gold-based to lower value precious and non-precious metal-based alloys for Vapor Deposition Products. This resulted in a significant reduction in revenue for WAM. However, the actual level of business at WAM, as measured by value-added sales, increased in the quarter. Williams Advanced Materials is a wholly-owned subsidiary of Brush Wellman Inc. In addition, exchange rates and lower copper prices contributed to the decline in revenues relative to the second quarter last year. Excluding these three factors, sales were approximately level with the second quarter 1997. However, compared with the

first quarter of 1998, revenues declined due to the aforementioned mix shift at WAM as well as softness in Asian and U.S. electronics markets. This market softness grew progressively worse in the latter part of the quarter. In addition, sales of certain Alloy products continue to be constrained by production capacity limitations. Revenues had increased by 14% in the first quarter despite the impacts of the strong dollar and low copper prices.

For the first half of 1998, Brush Wellman recorded a net loss of \$6.9 million, or \$0.42 per share, diluted. Absent the charges taken in the second quarter, the Company earned net income of \$8.7 million and earnings per share, diluted, of \$0.52 for the first half of 1998. This compares with net income of \$14.0 million and earnings per share, diluted, of \$0.86 in the first half of 1997.

Sales for the first half 1998 were a record \$217 million, a 2% increase from first half 1997 sales of \$213 million, the previous record.

Commenting on the results, Gordon Harnett, Chairman, President and Chief Executive Officer said, "The slowdown in Asian and U.S. electronics markets affected our revenues to a greater degree than expected, particularly in the latter part of the second quarter. In addition, throughout the quarter, capacity constraints and start-up issues on our alloy expansion inhibited our ability to meet customer demand for certain products and adversely impacted operating costs. Earnings also continue to be pressured by the strong dollar. Many of these factors are persisting into the third quarter. In addition, second quarter results were affected to a small degree by the strike at General Motors. This situation could have a more significant impact on future results if the strike continues."

Regarding the asset write-downs, Mr. Harnett stated, "In reviewing our long-range plans, several issues became apparent. First, the installation of our major expansion and upgrading of our Alloy strip production facilities in Elmore, Ohio remains on schedule. As we bring this new production capacity on-line, many of the older manufacturing assets at the Elmore, Ohio facility will become obsolete. Second, upon review it became clear that the carrying values of certain assets relating to Beryllium Products and Ceramic Products could not be supported by current or projected cash flows, based on our latest long-range analysis. Third, the decision has been made to attempt to develop a parcel of land owned by a subsidiary of the Company under the

Ohio Voluntary Action Program. The asset write-downs and reserves relate principally to these three conclusions. The \$21.8 million pre-tax charge taken in the second quarter represents the vast majority of the charges relating to these items. An additional \$0.9 million pre-tax charge is expected to be taken in the second half. Thus for the year, the total pre-tax charge is expected to be \$22.7 million.

"These actions are consistent with our long-range strategic plan of improving our base businesses, expanding Alloy and building a microelectronics business. The asset write-downs do not suggest any plan or desire on the part of management to exit any of our current business units, rather, they reflect reduced expectations for growth in some products, and the obsolescence of some equipment which is being replaced by our new, state-of-the-art Alloy manufacturing facility."

Any forward-looking statements in this announcement are based on current expectations. The Company's actual future performance may differ from that contemplated by the forward-looking statements as a result of a variety of factors including the continuing slow down in Asian and U.S. electronics markets, the General Motors strike, and other factors affecting the global economy, changes in product mix, the timely and successful completion of pending capital expansions, and exchange rates.

Brush Wellman Inc., with headquarters in Cleveland, Ohio, is a manufacturer of engineered materials. The Company and its subsidiaries supply worldwide markets with Beryllium Products, Alloy Products, Ceramic Products, Precious Metal Products and Engineered Material Systems.

For further information, please contact:

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**CONSOLIDATED STATEMENTS OF INCOME**  
(UNAUDITED)

(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)	SECOND QUARTER ENDED		FIRST HALF ENDED	
	JULY 3, 1998	JUNE 27, 1997	JULY 3, 1998	JUNE 27, 1997
NET SALES	\$ 102,992	\$ 113,374	\$ 217,174	\$ 213,062
COST OF SALES	85,476	83,587	171,629	157,584
GROSS MARGIN	17,516	29,787	45,545	55,478
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES	16,450	17,161	32,783	32,561
RESEARCH AND DEVELOPMENT EXPENSES	1,967	1,982	4,172	3,560
OTHER-NET	17,963	20	18,660	(504)
OPERATING PROFIT	(18,864)	10,624	(10,070)	19,861
INTEREST EXPENSE	172	79	408	364
INCOME BEFORE INCOME TAXES	(19,036)	10,545	(10,478)	19,497
INCOME TAXES	(5,952)	3,056	(3,556)	5,518
NET INCOME	\$ (13,084)	\$ 7,489	\$ (6,922)	\$ 13,979
PER SHARE OF COMMON STOCK: BASIC	\$ (0.80)	\$ 0.46	\$ (0.42)	\$ 0.86
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	16,372,170	16,285,043	16,344,844	16,244,158
PER SHARE OF COMMON STOCK: DILUTED	\$ (0.80)	\$ 0.46	\$ (0.42)	\$ 0.86
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	16,372,170	16,582,135	16,344,844	16,477,099
CASH DIVIDENDS PER COMMON SHARE	\$ 0.12	\$ 0.11	\$ 0.24	\$ 0.22

**SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.**



# **CONSOLIDATED BALANCE SHEETS**

(DOLLARS IN THOUSANDS)	JUL. 3, 1998	DEC. 31, 1997
-----		
ASSETS		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	\$747	\$7,170
ACCOUNTS RECEIVABLE	61,593	62,812
INVENTORIES	95,001	90,714
PREPAID EXPENSES AND OTHER		
CURRENT ASSETS	17,577	18,215
	-----	-----
TOTAL CURRENT ASSETS	174,918	178,911
OTHER ASSETS	38,583	31,319
PROPERTY, PLANT AND EQUIPMENT	418,355	463,689
LESS ALLOWANCES FOR DEPRECIATION, DEPLETION AND IMPAIRMENT	247,785	290,067
	-----	-----
	170,570	173,622
	-----	-----
	\$384,071	\$383,852
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
SHORT-TERM DEBT	\$53,602	\$28,877
ACCOUNTS PAYABLE	8,979	13,519
OTHER LIABILITIES AND ACCRUED ITEMS	28,822	28,580
DIVIDENDS PAYABLE	0	1,967
INCOME TAXES	(928)	5,369
	-----	-----
TOTAL CURRENT LIABILITIES	90,475	78,312
OTHER LONG-TERM LIABILITIES	6,786	8,200
RETIREMENT AND POST-EMPLOYMENT BENEFITS	39,389	39,825
LONG-TERM DEBT	17,905	17,905
DEFERRED INCOME TAXES	3,927	2,797
SHAREHOLDERS' EQUITY	225,589	236,813
	-----	-----
	\$384,071	\$383,852
	=====	=====

**SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	FIRST HALF ENDED	
	JULY 3, 1998	JUNE 27, 1997
NET INCOME	(\$6,922)	\$13,979
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH		
PROVIDED FROM OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	11,852	9,619
Amortization of mine development	1,937	1
Decrease (Increase) in accounts receivable	(26)	(20,233)
Decrease (Increase) in Inventory	(4,784)	3,799
Decrease (Increase) in prepaid and other current assets	246	(1,011)
Increase (Decrease) in accounts payable and accrued expenses	(3,754)	4,948
Increase (Decrease) in interest and taxes payable	(6,230)	(286)
Increase (Decrease) in deferred income tax	1,130	191
Increase (Decrease) in other long-term liabilities	(1,790)	1,959
Impairment of fixed assets and related intangibles	14,273	-
Other - net	708	(237)
	-----	-----
NET CASH PROVIDED FROM OPERATING ACTIVITIES	6,640	12,729
Cash Flows from Investing Activities:		
Payments for purchase of property, plant and equipment	(20,156)	(26,159)
Payments for mine development	(258)	(6,932)
Proceeds from (Payments for) other investments	(12,070)	405
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(32,484)	(32,686)
Cash Flows from Financing Activities:		
Proceeds from issuance of short-term debt	27,236	11,367
Repayment of short-term debt	(1,652)	(93)
Proceeds from issuance of long-term debt	-	-
Repayment of long-term debt	-	(160)
Issuance of Common Stock under stock option plans	3,433	483
Purchase of Common Stock for treasury	(3,620)	(508)
Payments of dividends	(5,893)	(3,562)
	-----	-----
NET CASH PROVIDED FROM FINANCING ACTIVITIES	19,504	7,527
Effects of Exchange Rate Changes	(83)	(3,158)
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,423)	(15,588)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,170	31,749
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	747	16,161
	=====	=====

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

### NOTE A - ACCOUNTING POLICIES

In management's opinion, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position as of July 3, 1998 and December 31, 1997 and the results of operations for the three and six month periods ended July 3, 1998 and June 27, 1997.

NOTE B - INVENTORIES		
(DOLLARS IN THOUSANDS)	JULY 3, 1998	DEC. 31, 1997
-----		
Principally average cost:		
Raw materials and supplies	\$21,231	\$17,331
In Process	57,595	58,666
Finished	37,838	37,008
	-----	-----
	116,664	113,005
Excess of average cost over LIFO inventory value	21,663	22,291
	-----	-----
	\$95,001	\$90,714
	=====	=====

### NOTE C - COMPREHENSIVE INCOME

As of January 1, 1998, the Company adopted Statement 130, "Reporting Comprehensive Income". Statement 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the Company's net income or shareholders' equity. Statement 130 requires certain items, including foreign currency translation adjustments, which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of Statement 130.

For the second quarter 1998 and 1997, comprehensive income/(loss) amounted to (\$13,330,601) and \$8,508,685, respectively. Year to date 1998 and 1997 comprehensive income/(loss) amounted to (\$7,568,532) and \$14,016,973, respectively. The difference between net income/(loss) and comprehensive income/(loss) is the cumulative translation adjustment for the periods presented.

**NOTE D - SPECIAL CHARGE**

In the second quarter 1998, the Company recorded special charges totaling \$21.8 million pre-tax and \$15.6 million after-tax. The charge resulted primarily from write-downs of property, plant and equipment, inventory and goodwill, and increases to environmental reserves. Of the \$21.8 million, \$4.9 million was charged to Cost of sales and \$16.9 million was charged to Other-net on the consolidated income statement for the second quarter 1998.

In analyzing the strategic plans for each of the Company's business units, management determined that the carrying value of certain assets within its Microelectronics and Metal Systems Groups were impaired based upon current cash flow projections. Property, plant and equipment and related intangibles with a carrying value of \$19.6 million was written down by \$14.3 million to its estimated fair market value. The fair market value was determined by a discounted cash flow analysis using the Company's estimated pre-tax weighted average cost of capital. The impaired assets may be held for future use. The \$14.3 million impairment is included in Other-net on the consolidated income statement.

Depreciation charges were recorded for equipment that will be taken out of service with the completion of certain capital projects by December 31, 1998. This will also result in additional charges of \$0.8 million to be recorded in the second half of 1998. Inventory write-downs and certain provisions were taken as a result of the reduced growth expectations and current market conditions.

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