# BRUSH ENGINEERED MATERIALS INC 

FORM 8-K

(Unscheduled Material Events)

Filed 7/26/2001 For Period Ending 7/26/2001

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

## Washington, D.C. 20549

## FORM 8-K

## CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 26, 2001

## BRUSH ENGINEERED MATERIALS INC.

(exact name of registrant as specified in its charter)

Ohio
State of other juris-
diction of incorporation)
17876 St. Clair Avenue
(Address of principal executive offices)

$$
\begin{aligned}
& 1-7006 \\
& \text { (Commission } \\
& \text { File Number) } \\
& \text { Cleveland, Ohio }
\end{aligned}
$$

(Zip Code)

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

## Item 5. OTHER EVENTS

On July 26, 2001, Brush Engineered Materials Inc. issued a press release, a copy of which is attached as Exhibit 99 hereto.

## 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 MATERAILS, INC.

## Date: July 26, 2001

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By: /s/ Michael C. Hasychak
    Vice President, Secretary and Treasurer
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## INDEX TO EXHIBITS

DESCRIPTION OF EXHIBIT

Press Release, dated July 26, 2001

## Exhibit 99

## BRUSH ENGINEERED MATERIALS INC. REPORTS SECOND QUARTER RESULTS IN LINE WITH PREVIOUSLY ANNOUNCED EXPECTATIONS

## FOR IMMEDIATE RELEASE

CLEVELAND, Ohio -- July 26, 2001 -- Brush Engineered Materials Inc. (NYSE - BW) today reported second quarter sales of $\$ 128.5$ million, down $6 \%$ from 2000 second quarter sales of $\$ 137.2$ million and $13 \%$ lower than the first quarter 2001 sales. The second quarter 2001 sales represent the first quarter-to-quarter sales decline in two years. Second quarter sales were adversely affected by weakness in the telecommunications and computer markets, the Company's two largest markets comprising approximately 50 percent of total sales. Sales for the first half were $\$ 274.0$ million, up slightly from sales of $\$ 272.6$ million in the first half of 2000 . Foreign exchange rates negatively impacted sales for the second quarter and first half of 2001 as compared to the same periods in 2000 by $\$ 1.6$ million and $\$ 3.3$ million respectively.

Net income for the second quarter 2001 was $\$ 1.3$ million or $\$ 0.08$ per share diluted versus $\$ 3.9$ million or $\$ 0.24$ per share diluted for the same period last year. Net income for the first half was $\$ 7.5$ million or $\$ 0.45$ per share diluted, up $23 \%$ compared to $\$ 6.1$ million or $\$ 0.38$ per share diluted for the first half of 2000 . Gross margin as a percent of sales decreased from $21.7 \%$ in the second quarter of 2000 to $18.4 \%$ in the second quarter of 2001 due to lower sales volume and unfavorable currency effect offset partially by favorable pricing. Gross margin as a percent of sales for the first half of 2001 versus 2000 was about flat. Selling, general and administrative (SG\&A) expenses as a percent of sales was $14.6 \%$ in the second quarter 2001 versus $15.4 \%$ for the second quarter 2000 . SG\&A expense as a percent of sales for the first half of 2001 of $14.7 \%$ improved by $1.1 \%$ over 2000. The improvement in SG\&A as a percent of sales for the quarter and year to date is driven largely by cost reduction actions and lower legal, medical and environmental health and safety expenses.

## BUSINESS SEGMENT REPORTING

The second quarter and first half 2001 operating profit results for each segment include certain corporate and share service allocated expense and other costs and expenses due to the reorganization of the Company's corporate and capital structure approved by shareholders on May 2 , 2000 and completed on January 1, 2001. Financial results for each segment have been adjusted for the same periods in 2000 to reflect these changes.

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

The Metal Systems Group's second quarter sales were $\$ 83.4$ million, down $12 \%$ from 2000 second quarter sales of $\$ 95.1$ million. Year-to-date sales were $\$ 182.0$ million versus $\$ 186.3$ million for the first half of 2000.

Second quarter operating profit/(loss) for the Metal Systems Group was (\$1.6 million) versus $\$ 2.7$ million for the same period last year. Year-to-date operating profit was $\$ 4.9$ million, more than double last year's first half operating profit of $\$ 2.2$ million.

Alloy Products' second quarter sales of $\$ 63.0$ million were down $6 \%$ from the second quarter of 2000 and were $15 \%$ below first quarter 2001 sales. The first six months sales were flat as compared to the first half of 2000. Alloy strip sales, which comprises a third of total sales of the Company and approximately two-thirds of Alloy Product sales, experienced significant order cancellations and a drop off in demand from the telecommunications and computer markets during the second quarter. As the demand slowed in the second quarter, production was adjusted throughout the strip supply chain to manage inventory and control cost. It is anticipated that this softness in demand will continue at least through the third quarter of 2001. In addition, a more extensive plant maintenance shutdown will be taken during the third quarter. Alloy bulk product sales increased $2 \%$ in the second quarter 2001 over second quarter 2000 while year-to-date sales increased by $7 \%$ over the same period last year. Alloy bulk products is beginning to experience some softness in the undersea telecommunications market while the plastic tooling and welding markets have been soft for most of the year.

TMI's second quarter sales of $\$ 12.6$ million and first half sales of $\$ 33.1$ million were down $45 \%$ and $21 \%$ respectively from the same periods last year. This significant decline is due to weak demand in the telecommunication and computer/datacom markets. TMI has taken cost reduction actions commensurate with the sales decline and is operating at a profit.

Beryllium Products' second quarter sales of $\$ 7.8$ million were up $47 \%$ and first half sales of $\$ 14.7$ million were up $39 \%$ over the same periods last year. This sales growth has been driven primarily by increased demand for aerospace and defense product applications.

## MICROELECTRONICS GROUP

The Microelectronics Group includes Williams Advanced Materials Inc. (WAM), and Electronic Products. (Electronic Products includes Zentrix Technologies Inc. and Brush Ceramic Products Inc.)

The Microelectronics Group's sales were $\$ 42.3$ million for the second quarter and $\$ 89.2$ million year-to-date, which represents an increase of $1 \%$ and $7 \%$ respectively over the same period last year. Operating profit was $\$ 0.9$ million for the second quarter versus $\$ 2.7$ million for the second quarter of 2000 and $\$ 3.3$ million for the first six months versus $\$ 4.8$ million for the same period last year.

WAM's second quarter sales of $\$ 32.7$ million increased $5 \%$ over the second quarter 2000 and year-to-date sales of $\$ 68.0$ million grew $8 \%$ over the same period last year. The sales growth was fueled by strong demand from the wireless/photonic microelectronics markets. During the second quarter, WAM acquired certain assets used in the production of frame lid assemblies from a competitor who has withdrawn from this market. It is anticipated that this added capacity will increase WAM's future sales of frame lid assemblies. WAM is experiencing overall record growth and expects demand to be strong through the remainder of 2001.

Electronic Products' second quarter sales of $\$ 9.6$ million were down $9 \%$ from the second quarter of 2000. Sales of $\$ 21.2$ million for the first half were up $4 \%$ over the same period last year. Electronic Products experienced softness from the wireless telecommunications market during the second quarter of 2001 . This softness was partially offset by demand for thick film circuit products.

## Outlook

The significant decline in the telecommunications and computer markets continues to affect the performance of Alloy Products, Technical Materials Inc. and the Electronic Products businesses. In addition, some of the Company's customers are in the process of taking extended operational maintenance shutdowns due to the slowdown in these markets. Brush Engineered Materials expects that third quarter sales will be $5 \%$ less than second quarter sales. Actions continue to be taken to mitigate the impact of the lower sales on earnings. The actions include manufacturing cost reductions, capital expenditure deferrals and a reduction in overhead spending. Therefore, third quarter earnings are expected to be similar to the second quarter. However, there is a potential for a downside in the quarter depending on future order rates.

## Chairman's Comments

Commenting on the results, Gordon D. Harnett, Chairman, and Chief Executive Officer, said, "Although we are disappointed by this continued economic weakness and the impact it is having on our business, the steps we are taking to mitigate this short-term situation will also help deliver sustainable bottom line benefits in the future as the economy and our markets do rebound. Given the performance leverage we saw in the first quarter of 2001, I am convinced that we are well positioned to take advantage of an economic upturn, which many now expect to occur in 2002 rather than 2001."

## Forward-looking Statements

Any forward-looking statements in this announcement, including those in the Outlook Section, are based on current expectations. The Company's performance may differ materially from that contemplated by the forward-looking statements as a result of a variety of factors, including the global and domestic economy, fluctuations in customer demand, manufacturing yields and operating performances at the Company's various facilities, changes in product mix, financial condition of customers, the timely and successful completion of pending capital expansions, tax rates, exchange rates, energy costs and other matters referred to in the Company's Securities and Exchange Commission filings.

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:

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## DIGEST OF EARNINGS

JUNE 29, 2001
Second Quarter
Net Sales
Net Income
Share Earnings - Basic
Average Shares - Basic
Share Earnings - Diluted
Average Shares - Diluted
Year-to-date
Net Sales
Net Income
Share Earnings - Basic
Average Shares - Basic
Share Earnings - Diluted
Average Shares - Diluted

| 2001 | 2000 |
| :---: | :---: |
| \$128,457,000 | \$137,182,000 |
| \$1,275,000 | \$3,898,000 |
| \$0.08 | \$0.24 |
| 16,508,248 | 16,224,638 |
| \$0.08 | \$0.24 |
| 16,690,938 | 16,358,128 |
| \$273,980,000 | \$272,606,000 |
| \$7,481,000 | \$6,147,000 |
| \$0.45 | \$0.38 |
| 16,487,575 | 16,215,338 |
| \$0.45 | \$0.38 |
| 16,683,572 | 16,336,023 |


| (Dollars in thousands) | $\begin{gathered} \text { June } 29, \\ 2001 \end{gathered}$ | $\begin{aligned} & \text { Dec. 31, } \\ & 2000 \end{aligned}$ |
| :---: | :---: | :---: |
| Assets |  |  |
| Current Assets |  |  |
| Cash and cash equivalents | \$4,562 | \$4,314 |
| Accounts receivable | 88,906 | 92,334 |
| Inventories | 129,673 | 115,643 |
| Prepaid expenses | 7,554 | 8,525 |
| Deferred income taxes | 32,495 | 29,263 |
| Total Current Assets | 263,190 | 250,079 |
| Other Assets | 32,282 | 31,967 |
| Property, Plant and Equipment | 464,328 | 449,697 |
| Less allowances for depreciation, depletion and impairment | 289,140 | 279,237 |
|  | 175,188 | 170,460 |
|  | \$470,660 | \$452,506 |
| Liabilities and Shareholders' Equity |  |  |
| Current Liabilities |  |  |
| Short-term debt | \$32,470 | \$25,435 |
| Accounts payable | 27,037 | 34,714 |
| Other liabilities and accrued items | 36,577 | 39,021 |
| Dividends payable | 1,993 | 1,987 |
| Income taxes | 9,593 | 5,535 |
| Total Current Liabilities | 107,670 | 106,692 |
| Other Long-Term Liabilities | 19,160 | 15,878 |
| Retirement and Post-employment Benefits | 39,698 | 39,576 |
| Long-term Debt | 51,305 | 43,305 |
| Deferred Income Taxes | 18,525 | 17,148 |
| Shareholders' Equity | 234,302 | 229,907 |
|  | \$470,660 | \$452,506 |

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (Dollars in thousands except share and per share amounts) | Second Quarter EndedJune 29, June 30,2001 |  |  |  | First Half Ended  <br> June 29, June 30, <br> 2001 2000 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net sales | \$ | 128,457 | \$ | 137,182 | \$ | 273,980 | \$ | 272,606 |
| Cost of sales |  | 104,881 |  | 107,474 |  | 216,369 |  | 214,604 |
| Gross Margin |  | 23,576 |  | 29,708 |  | 57,611 |  | 58,002 |
| Selling, general and administrative expenses |  | 18,770 |  | 21,147 |  | 40,276 |  | 42,964 |
| Research and development expenses |  | 1,867 |  | 1,686 |  | 3,559 |  | 3,700 |
| Other-net |  | 226 |  | 110 |  | 1,028 |  | 338 |
| Operating Profit |  | 2,713 |  | 6,765 |  | 12,748 |  | 11,000 |
| Interest expense |  | 852 |  | 1,061 |  | 1,827 |  | 2,181 |
| Income before income taxes |  | 1,861 |  | 5,704 |  | 10,921 |  | 8,819 |
| Income taxes |  | 586 |  | 1,806 |  | 3,440 |  | 2,672 |
| Net Income | \$ | 1,275 | \$ | 3,898 | \$ | 7,481 | \$ | 6,147 |
| Per Share of Common Stock: Basic | \$ | 0.08 | \$ | 0.24 | \$ | 0.45 | \$ | 0.38 |
| Weighted average number |  |  |  |  |  |  |  |  |
| of common shares outstanding | 16,508,248 |  | 16,224,638 |  | 16,487,575 |  | 16,215,338 |  |
| Per Share of Common Stock: Diluted | \$ | 0.08 | \$ | 0.24 | \$ | 0.45 | \$ | 0.38 |
| Weighted average number |  |  |  |  |  |  |  |  |
| of common shares outstanding | 16,690,938 |  | 16,358,128 |  | 16,683,572 |  | 16,336,023 |  |
| Cash dividends per common share | \$ | 0.12 | \$ | 0.12 | \$ | 0.24 | \$ | 0.24 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Dollars in thousands) | $\begin{aligned} & \text { FIRST HALF } \\ & \text { JUNE 29, } \\ & 2001 \end{aligned}$ | $\begin{aligned} & \text { ENDED } \\ & \text { JUNE } 30, \\ & 2000 \end{aligned}$ |
| :---: | :---: | :---: |
| NET INCOME | \$ 7,481 | \$ 6,147 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH |  |  |
| PROVIDED FROM OPERATING ACTIVITIES: |  |  |
| Depreciation, depletion and amortization | 11,018 | 12,248 |
| Decrease (Increase) in accounts receivable | 1,984 | $(17,708)$ |
| Decrease (Increase) in inventory | $(14,959)$ | 3,257 |
| Decrease (Increase) in prepaid and other current assets | (116) | 412 |
| Increase (Decrease) in accounts payable and accrued expenses | $(9,987)$ | 9,012 |
| Increase (Decrease) in interest and taxes payable | 3,078 | 1,270 |
| Increase (Decrease) in deferred income taxes | (135) | (119) |
| Increase (Decrease) in other long-term liabilities | 2,691 | 2,006 |
| Other - net | 746 | 548 |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 1,801 | 17,073 |
| Cash Flows from Investing Activities: |  |  |
| Payments for purchase of property, plant and equipment | $(15,559)$ | $(6,415)$ |
| Payments for mine development | (281) | (138) |
| NET CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES | $(15,840)$ | $(6,553)$ |
| Cash Flows from Financing Activities: |  |  |
| Proceeds from issuance/ (repayment of) short-term debt | 8,437 | $(7,460)$ |
| Proceeds from issuance of long-term debt | 15,500 | 18,000 |
| Repayment of long-term debt | $(7,500)$ | $(12,000)$ |
| Issuance of Common Stock under stock option plans | 1,753 | 384 |
| Payments of dividends | $(3,974)$ | $(3,919)$ |
| NET CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES | 14,216 | $(4,995)$ |
| Effects of Exchange Rate Changes | 71 | (166) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 248 | 5,359 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 4,314 | 99 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 4,562 | 5,458 |

## SEGMENT REPORTING

As a result of the recent corporate restructuring, the Company changed how costs flowed between its businesses. Certain costs that were previously included in the "All Other" column in the segment disclosures are being charged to Metal Systems and Microelectronics beginning in the first quarter 2001. Beginning in 2001, the "All Other" column includes the operating results of BEM Services Inc. and Brush Resources Inc., two wholly-owned subsidiaries of the Company, as well as the parent company's operating expenses. BEM Services charges a management fee for the services provided to the other businesses within the Company on a cost-plus basis. Brush Resources may sell beryllium hydroxide, produced from its mine and extraction mill in Utah, to outside customers and to businesses within the Metal Systems Group. Segment results from the prior year have been restated to reflect these changes on a pro forma basis.

|  | $\begin{aligned} & \text { METAL } \\ & \text { SYSTEMS } \end{aligned}$ |  | MICROELECTRONICS |  | TOTAL <br> SEGMENTS |  | ALL OTHER |  | TOTAL |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (DOLLARS IN THOUSANDS) |  |  |  |  |  |  |  |  |  |  |
| Revenues from external customers | \$ | 83,402 | \$ | 42,301 | \$ | 125,703 | \$ | 2,754 | \$ | 128,457 |
| Intersegment revenues |  | 352 |  | 472 |  | 824 |  | 5,539 |  | 6,363 |
| Profit (loss) before interest and taxes |  | $(1,614)$ |  | 921 |  | (693) |  | 3,406 |  | 2,713 |
| SECOND QUARTER 2000 |  |  |  |  |  |  |  |  |  |  |
| Revenues from external customers | \$ | 95,088 | \$ | 41,818 | \$ | 136,906 | \$ | 276 | \$ | 137,182 |
| Intersegment revenues |  | 1,023 |  | 240 |  | 1,263 |  | 5,766 |  | 7,029 |
| Profit (loss) before interest and taxes |  | 2,683 |  | 2,659 |  | 5,342 |  | 1,423 |  | 6,765 |
| FIRST SIX MONTHS 2001 |  |  |  |  |  |  |  |  |  |  |
| Revenues from external customers | \$ | 182,030 | \$ | 89,196 | \$ | 271,226 | \$ | 2,754 | \$ | 273,980 |
| Intersegment revenues |  | $(1,938)$ |  | $(1,301)$ |  | $(3,239)$ |  | $(10,386)$ |  | $(13,625)$ |
| Profit (loss) before interest and taxes |  | 4,946 |  | 3,340 |  | 8,286 |  | 4,461 |  | 12,747 |
| FIRST SIX MONTHS 2000 |  |  |  |  |  |  |  |  |  |  |
| Revenues from external customers | \$ | 186,263 | \$ | 83,425 | \$ | 269,688 | \$ | 2,918 | \$ | 272,606 |
| Intersegment revenues |  | 2,578 |  | 526 |  | 3,104 |  | 11,033 |  | 14,137 |
| Profit (loss) before interest and taxes |  | 2,245 |  | 4,801 |  | 7,046 |  | 3,954 |  | 11,000 |

## End of Filing

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