

# BRUSH WELLMAN INC

## FORM 10-Q (Quarterly Report)

Filed 5/12/1995 For Period Ending 4/2/1995

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CIK	0000014957
Fiscal Year	12/31

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549 **FORM 10-Q**

(Mark One)

**/ X / QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 2, 1995

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 WELLMAN INC.

(Exact name of Registrant as specified in charter)

Ohio  
(State or other jurisdiction of  
incorporation or organization)

34-0119320  
(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

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As of May 1, 1995 there were 16,149,825 shares of Common Stock, par value \$1 per share, outstanding.

## **PART 1. FINANCIAL INFORMATION**

### **BRUSH WELLMAN INC. AND SUBSIDIARIES**

#### **ITEM 1. FINANCIAL STATEMENTS**

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

Consolidated Statements of Income - Three months ended April 2, 1995 and April 3, 1994

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

Consolidated Statements of Cash Flows - Three months ended April 2, 1995 and April 3, 1994

#### **Notes to Consolidated Financial Statements**

**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

(Dollars in thousands except share and per share amounts)	First Quarter Ended	
	April 2, 1995	April 3, 1994
-----		
Net sales	\$98,912	\$84,794
Costs and expenses:		
Cost of sales	71,540	61,600
Selling, administrative and general expenses	15,507	12,617
Research and development expenses	1,821	2,186
Interest expense	512	471
Other-net	297	776
	-----	-----
	89,677	77,650
	-----	-----
Income before income taxes	9,235	7,144
Income taxes	2,447	1,550
	-----	-----
Net Income	\$ 6,788	\$ 5,594
	=====	=====
Per Share of Common Stock:	\$0.42	\$0.35
Cash dividends per common share	\$0.08	\$0.05
Weighted average number of common shares outstanding	16,290,649	16,157,216

See notes to consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(Dollars in thousands)	April, 2 1995	Dec. 31, 1994
-----		
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 13,843	\$ 20,441
Accounts receivable	60,767	52,272
Inventories	95,264	93,601
Prepaid expenses and other current assets	15,079	14,903
	-----	-----
Total Current Assets	184,953	181,217
Other Assets	18,710	19,153
Property, Plant and Equipment	354,067	350,811
Less allowances for depreciation, depletion and impairment	238,473	234,048
	-----	-----
	115,594	116,763
	-----	-----
	\$319,257	\$317,133
	=====	=====
 <b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Short-term debt	\$ 17,619	\$ 20,643
Accounts payable	7,973	8,861
Other liabilities and accrued items	25,945	26,649
Dividends payable	-	1,288
Income taxes	11,272	8,482
	-----	-----
Total Current Liabilities	62,809	65,923
Other Long-Term Liabilities	42,102	41,940
Long-Term Debt	18,719	18,527
Deferred Income Taxes	3,161	3,803
Shareholders' Equity	192,466	186,940
	-----	-----
	\$319,257	\$317,133
	=====	=====

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Three Months Ended April 2, 1995	April 3, 1994
(Dollars in thousands)		
Net Income	\$ 6,788	\$ 5,594
Adjustments to Reconcile Net Income to Net Cash		
Provided From Operating Activities:		
Depreciation, depletion and amortization	5,130	4,638
Amortization of mine development	-	721
Decrease (Increase) in accounts receivable	(6,667)	(2,449)
Decrease (Increase) in Inventory	(1,663)	779
Decrease (Increase) in prepaid and other current assets	97	(312)
Increase (Decrease) in accounts payable and accrued expenses	(2,623)	(229)
Increase (Decrease) in interest and taxes payable	2,217	1,456
Increase (Decrease) in deferred income tax	(642)	(368)
Other - net	23	618
	-----	-----
Net Cash Provided From Operating Activities	2,660	10,448
Cash Flows from Investing Activities:		
Payments for purchase of property, plant and equipment	(3,741)	(3,608)
Payments for mine development	(312)	(141)
Proceeds from (Payments for) other investments	504	-
	-----	-----
Net Cash Provided From (Used in) Investing Activities	(3,549)	(3,749)
Cash Flows from Financing Activities:		
Proceeds from (Repayment of) short-term debt - net	(4,013)	1,029
Issuance of Common Stock under stock option plans	29	14
Payments of dividends	(2,580)	(1,609)
	-----	-----
Net Cash Provided From ( Used in) Financing Activities	(6,564)	(566)
Effects of Exchange Rate Changes	855	620
	-----	-----
Net Change in Cash and Cash Equivalents	(6,598)	6,753
Cash and Cash Equivalents at Beginning of Period	20,441	7,690
	-----	-----
Cash and Cash Equivalents at End of Period	\$13,843	\$14,443
	=====	=====

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

April 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 April 2, 1995 and December 31, 1994 and the results of operations for the the three months ended April 2, 1995 and April 3, 1994.

### NOTE B - INVENTORIES

(Dollars in thousands)	April 2, 1995	Dec 31, 1994
-----		
Principally average cost:		
Raw materials and supplies	\$ 18,171	\$ 21,020
In Process	58,473	55,008
Finished	41,188	39,530
	-----	-----
	117,832	115,558
 Excess of average cost over LIFO inventory value	 22,568	 21,957
	-----	-----
	\$ 95,264	\$ 93,601
	=====	=====

### NOTE C - OTHER POSTEMPLOYMENT BENEFITS

Effective January 1, 1994, the Company adopted Financial Accounting Standards Board Statement No. 112, "Employers' Accounting for Postemployment Benefits." The cumulative effect of adoption had essentially no effect on earnings and no effect on the Company's cash position.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

### Results of Operations

First quarter 1995 sales were a record \$99 million. This represents a 17% increase over the \$85 million recorded in first quarter 1994 and 13% over the \$88 million recorded in fourth quarter 1994. All product lines, except beryllium, recorded increases. International sales totaled \$36 million and comprised 36% of total sales in the first quarter 1995 compared to \$25 million or 29% of total sales in 1994. This international growth was primarily from 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 first quarter 1995 from the year ago period. Principal areas of growth were automotive electronics, telecommunications, computers and appliances. These growth markets, coupled with applications development efforts, were the key to continued strength in this product line. Sales comparisons were also impacted by higher pass-through commodity costs, especially copper. The international component of this product line experienced significant volume gains along with the favorable impact of currency rate changes.

Beryllium Products sales declined in the first quarter compared with last year due to the absence of sales to the Defense Logistics Agency stockpile. Efforts continue to be focused on development of new products and applications in the aerospace and avionics markets.

Ceramic Products showed solid growth over the year ago period, the key markets being automotive electronics and telecommunications. The successful efforts to expand the sale of products based on direct bond copper technology were another factor in the increased sales.

Specialty Metal Systems sales increased in first quarter 1995 as compared to first quarter 1994. The gains result from application development efforts focused on such growth markets as automotive electronics and telecommunications.

Sales of Precious Metal Products were up slightly in first quarter 1995 over the comparable 1994 period, but below the strong fourth quarter of 1994. For the rest of 1995, it is expected that year-to-year comparisons to be unfavorable due to lower frame lid assembly shipments. To partly offset this volume drop was the continued development of the vapor deposition target business and a move into the precious metal ultra-fine wire market.

Gross margin (sales less cost of sales) increased slightly to 27.7% of sales in first quarter 1995 as compared to 27.4% of sales in first quarter 1994. Although the product mix shift was towards lower margin products, the higher volumes and the impact from currency rate changes provided for the increase in gross margin.

Selling, administrative and general expenses were \$15.5 million or 15.7% of sales, up from \$12.6 million or 14.9% of sales in first quarter 1994. The increase was across all expense categories. A portion of the increase relates to an Alloy Products business process re-design effort that was started during the third quarter of 1994. In addition, a subsidiary was established in Singapore to provide marketing for alloy and beryllium products to customers in Singapore, India, China, ASEAN and Australia.

Research and development expenses in first quarter 1995 were \$1.8 million or 1.8% of sales as compared to the \$2.2 million or 2.6% of sales in the first quarter 1994. The first quarter of 1994 included a high level of activity in product development for AlBeMet(R) materials. The results of these activities are now in further engineering and process development in manufacturing.

Interest expense was slightly higher in first quarter 1995 as compared to first quarter 1994. This is due to lower capitalized interest on active capital projects in first quarter 1995.

Other-net expense was \$0.3 million in first quarter 1995 compared to \$0.8 million in first quarter 1994. This category includes non-operating items such as currency exchange and translation effects, interest income and amortization of goodwill.

First quarter 1995 income before income taxes increased to \$9.2 million from \$7.1 million in first quarter 1994. The margin on higher sales volume and the impact of currency rate changes account for the improvement. Income taxes were provided for at an effective rate of 26.5% of pre-tax income in first quarter 1995 compared to 21.7% in first quarter 1994. The higher rate results from the increased pre-tax income and lower available tax credits. First quarter earnings per share were \$0.42 in 1995 compared to \$0.35 in 1994.

### **Financial Condition**

Net cash provided from operating activities was \$2.7 million during first quarter 1995 as compared to \$10.4 million in the 1994 comparable period. Accounts receivable increased \$8.5 million or 16% which is slightly above the 13% sales increase from fourth quarter 1994 to first quarter 1995.

Capital expenditures for property, plant and equipment amounted to \$3.7 million during the first quarter 1995 and are expected to exceed the \$17 million spent in 1994.

Total debt decreased by \$2.8 million during first quarter 1995. This included retiring \$5 million of medium-term notes which matured in early March. Long-term debt at the end of the quarter was 9% of total capital.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

#### (a) Beryllium Exposure Claims

Claims concluded since the end of fiscal year 1994. Bruce Hand and his wife filed suit against the Company in the Superior Court of New Jersey, Pasaic County, on September 22, 1993, for which service of process on the Company occurred on September 27, 1993. This claim was disclosed on the Company's annual report on Form 10-K for the year ended December 31, 1994. Mr. Hand claimed that, while he was an employee of the Company, he sustained injury to his lungs, chest, and pulmonary and nervous systems as a result of his exposure to beryllium oxide powder. Mr. Hand sought compensatory damages of an unspecified amount; his wife claimed damages of an unspecified amount of loss of Mr. Hand's support, society and consortium. This suit subsequently was removed to the District Court for the District of New Jersey and was consolidated with certain other beryllium exposure claims against the Company. On March 10, 1995, the U.S. District Court granted the Company's motion for summary judgment with respect to the claims of Mr. and Mrs. Hand. The deadline for an appeal of the court's order granting the Company's motion for summary judgment was April 14, 1995; no appeal was filed by plaintiffs on or before this date.

Recent Developments Relating to Pending Claims Since the End of Fiscal Year 1994. Geraldine Ruffin, individually and as executrix of the estate of her husband John H.P. Ruffin, filed suit against the Company and certain other producers of beryllium-containing products, 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 disclosed 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 defendants' beryllium-containing products. Mrs. Ruffin sought compensatory and punitive damages of an unspecified amount. On March 31, 1995, the Superior Court of New Jersey, Essex County, granted defendants' motion for summary judgment with respect to Mrs. Ruffin's claims. Plaintiff's counsel has indicated to the Company its intention to appeal the court's judgment, notice of which must be filed by May 15, 1995. The Company believes that resolution of any such appeal would not have a material adverse effect upon the Company.

Claims Initiated Since the End of Fiscal Year 1994. The Company is a defendant in separate suits filed on February 28, 1995 by two Company employees and their spouses against the Company and certain Company employees in the Superior Court of Pima County, Arizona. These suits are similar to seven suits currently pending in the Superior Court of Pima County (six of which were instituted on June 10, 1994 and one of which was instituted on December 13, 1994) against the Company and certain Company employees. The plaintiffs claim that, during their employment with the Company, they contracted chronic beryllium disease as a result of exposure to beryllium and beryllium-containing products. The plaintiffs seek compensatory and punitive damages of an unspecified amount based on allegations that the Company intentionally misrepresented the potential danger of exposure to beryllium and breached an agreement to pay certain benefits in the event the plaintiffs contracted chronic beryllium disease. Defense of this case is being conducted by counsel retained by the Company, and the Company's insurance carrier is investigating its liability for these claims. The

Company believes that resolution of these cases will 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 asbestos-induced illness allegedly relating to the former operations of the Subsidiary, then known as The S.K. Wellman Corp. Seventeen 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-three 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Company's Annual Meeting of Shareholders for 1995 was held on May 2, 1995.

(b) Not applicable.

(c) At the Annual Meeting, three directors were elected to serve for a term of three years by the following vote.

	Shares Voted "For"	Shares Voted "Withheld"
Frank B. Carr	13,182,717	480,666
Gerald C. McDonough	13,182,482	480,901
John Sherwin, Jr.	13,185,001	478,382

The adoption of the Brush Wellman Inc. 1995 Stock Incentive Plan was approved by the following vote:

Shares Voted "For"	Shares Voted "Against"	Shares Voted "Abstaining"	Non-Voting Shares
-----	-----	-----	-----
12,314,799	1,240,564	108,020	-0-

The selection of Ernst & Young LLP as independent auditors for 1995 was ratified and approved by the following vote:

Shares Voted "For"	Shares Voted "Against"	Shares Voted "Abstaining"	Non-Voting Shares
-----	-----	-----	-----
13,459,237	146,907	57,239	-0-

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

11. Statement re computation of per share earnings.

27. Financial Data Schedule (Securities and Exchange Commission EDGAR filing only).

(b) Reports on Form 8-K

There have been no reports on Form 8-K during the quarter ended April 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: May 12, 1995*

*/s/ Carl Cramer*

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

# EXHIBIT 11

## BRUSH WELLMAN INC. AND SUBSIDIARIES

### COMPUTATION OF PER SHARE EARNINGS

	FIRST QUARTER ENDED	
	April 2, 1995	April 3, 1994
Primary:		
Average shares outstanding	16,123,733	16,087,928
Dillutive stock options based on the treasury stock method using average market price	107,779	44,950
TOTALS	16,231,512 =====	16,132,878 =====
Net Income	\$ 6,788,000	\$ 5,594,000
Per share amount	\$0.42 =====	\$0.35 =====
Fully diluted:		
Average shares outstanding	16,123,733	16,087,928
Dillutive stock options based on the treasury stock method using average market price	166,916	69,288
TOTALS	16,290,649 =====	16,157,216 =====
Net Income	\$ 6,788,000	\$ 5,594,000
Per share amount	\$0.42 =====	\$0.35 =====

**ARTICLE 5**

CIK: 0000014957

NAME: BRUSH WELLMAN

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD START	JAN 01 1995
PERIOD END	APR 02 1995
CASH	13,843
SECURITIES	0
RECEIVABLES	60,767
ALLOWANCES	1,010
INVENTORY	95,264
CURRENT ASSETS	184,953
PP&E	354,067
DEPRECIATION	238,473
TOTAL ASSETS	319,257
CURRENT LIABILITIES	62,809
BONDS	18,719
COMMON	21,217
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	171,249
TOTAL LIABILITY AND EQUITY	319,257
SALES	98,912
TOTAL REVENUES	98,912
CGS	71,540
TOTAL COSTS	88,868
OTHER EXPENSES	275
LOSS PROVISION	22
INTEREST EXPENSE	512
INCOME PRETAX	9,235
INCOME TAX	2,447
INCOME CONTINUING	6,788
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	6,788
EPS PRIMARY	\$0.42
EPS DILUTED	\$0.42

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