
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2009

☐ 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 001-15885

BRUSH ENGINEERED MATERIALS INC.

(Exact name of Registrant as specified in charter)

Ohio

(State or other jurisdiction of incorporation or organization)

6070 Parkland Blvd., Mayfield Hts., Ohio

(Address of principal executive offices)

34-1919973

(I.R.S. Employer Identification No.)

44124

(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 ☒
No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 24, 2009 there were 20,196,504 shares of Common Stock, no par value, outstanding.

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PART I FINANCIAL INFORMATION

BRUSH ENGINEERED MATERIALS INC. AND SUBSIDIARIES

Item 1. Financial Statements

The consolidated financial statements of Brush Engineered Materials Inc. and its subsidiaries for the second quarter and first half ended July 3, 2009 are as follows:

Consolidated Statements of Income
(Unaudited)

(Dollars in thousands except share and per share amounts)

	Second Quarter Ended		First Half Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Net sales	\$ 174,134	\$ 246,584	\$ 309,493	\$ 472,931
Cost of sales	152,000	201,945	272,757	391,334
Gross margin	22,134	44,639	36,736	81,597
Selling, general and administrative expense	20,694	28,294	43,239	55,023
Research and development expense	1,526	1,644	3,220	3,141
Other-net	1,474	3,089	3,230	3,850
Operating (loss) profit	(1,560)	11,612	(12,953)	19,583
Interest expense-net	271	649	597	985
Income (loss) before income taxes	(1,831)	10,963	(13,550)	18,598
Income tax (benefit) expense	(1,046)	3,805	(4,620)	6,844
Net (loss) income	<u>\$ (785)</u>	<u>\$ 7,158</u>	<u>\$ (8,930)</u>	<u>\$ 11,754</u>
Per share of common stock: basic	\$ (0.04)	\$ 0.35	\$ (0.44)	\$ 0.58
Weighted average number of common shares outstanding	20,186,000	20,399,000	20,159,000	20,394,000
Per share of common stock: diluted	\$ (0.04)	\$ 0.35	\$ (0.44)	\$ 0.57
Weighted average number of common shares outstanding	20,186,000	20,653,000	20,159,000	20,626,000

See notes to consolidated financial statements.

Consolidated Balance Sheets
(Unaudited)

	July 3, 2009	Dec. 31, 2008
<i>(Dollars in thousands)</i>		
Assets		
Current assets		
Cash and cash equivalents	\$ 21,042	\$ 18,546
Accounts receivable	74,114	87,878
Other receivables	4,639	3,378
Inventories	132,939	156,718
Prepaid expenses	26,406	23,660
Deferred income taxes	8,120	4,199
Total current assets	267,260	294,379
Other assets	32,228	34,444
Related-party notes receivable	98	98
Long-term deferred income taxes	9,945	9,944
Property, plant and equipment	643,376	635,266
Less allowances for depreciation, depletion and amortization	438,412	428,012
	204,964	207,254
Goodwill	35,778	35,778
Total Assets	<u>\$550,273</u>	<u>\$581,897</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term debt	\$ 26,869	\$ 30,622
Current portion of long-term debt	600	600
Accounts payable	22,927	28,014
Other liabilities and accrued items	30,658	45,131
Unearned revenue	2,062	113
Total current liabilities	83,116	104,480
Other long-term liabilities	29,695	19,356
Retirement and post-employment benefits	81,412	97,168
Long-term income taxes	3,029	3,028
Deferred income taxes	770	163
Long-term debt	10,905	10,605
Shareholders' equity	341,346	347,097
Total Liabilities and Shareholders' Equity	<u>\$550,273</u>	<u>\$581,897</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(Unaudited)

	First Half Ended	
	July 3, 2009	June 27, 2008
<i>(Dollars in thousands)</i>		
Net (loss) Income	\$ (8,930)	\$ 11,754
Adjustments to reconcile net (loss) income to net cash provided from operating activities:		
Depreciation, depletion and amortization	14,455	14,508
Amortization of mine costs	1,896	2,763
Amortization of deferred financing costs in interest expense	209	177
Derivative financial instrument ineffectiveness	—	163
Stock-based compensation expense	1,630	2,460
Changes in assets and liabilities net of acquired assets and liabilities:		
Decrease (increase) in accounts receivable	12,446	(15,152)
Decrease (increase) in other receivables	(1,261)	11,263
Decrease (increase) in inventory	23,017	(9,710)
Decrease (increase) in prepaid and other current assets	1,199	(1,455)
Decrease (increase) in deferred income taxes	(3,405)	14
Increase (decrease) in accounts payable and accrued expenses	(18,686)	(8,166)
Increase (decrease) in unearned revenue	1,950	(2,065)
Increase (decrease) in interest and taxes payable	(314)	(1,144)
Increase (decrease) in long-term liabilities	(13,769)	1,336
Other - net	1,286	(566)
Net cash provided from operating activities	11,723	6,180
Cash flows from investing activities:		
Payments for purchase of property, plant and equipment	(16,054)	(14,637)
Payments for mine development	(386)	(152)
Reimbursements for capital equipment under government contracts	10,169	4,125
Payments for purchase of business net of cash received	—	(87,462)
Proceeds from sale of acquired inventory to consignment	—	24,325
Other investments - net	21	66
Net cash used in investing activities	(6,250)	(73,735)
Cash flows from financing activities:		
Proceeds from issuance (repayment) of short-term debt	(3,336)	10,414
Proceeds from issuance of long-term debt	8,300	40,900
Repayment of long-term debt	(8,000)	—
Issuance of common stock under stock option plans	157	174
Tax benefit from exercise of stock options	11	28
Net cash (used in) provided from financing activities	(2,868)	51,516
Effects of exchange rate changes	(109)	(528)
Net change in cash and cash equivalents	2,496	(16,567)
Cash and cash equivalents at beginning of period	18,546	31,730
Cash and cash equivalents at end of period	\$ 21,042	\$ 15,163

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 July 3, 2009 and December 31, 2008 and the results of operations for the second quarter and first half ended July 3, 2009 and June 27, 2008. Sales and income before income taxes were reduced in the first quarter 2008 by \$2.6 million to correct a billing error that occurred in 2007 that was not material to the 2007 results. All other adjustments were of a normal and recurring nature.

Management has evaluated subsequent events that occurred through August 11, 2009, the date the financial statements were issued. During this period, there were no recognized subsequent events requiring recognition in the financial statements and no non-recognized subsequent events requiring disclosure.

Note B —Inventories

	July 3, 2009	Dec. 31, 2008
<i>(Dollars in thousands)</i>		
Principally average cost:		
Raw materials and supplies	\$ 35,052	\$ 41,468
Work in process	128,988	139,552
Finished goods	36,347	50,579
Gross inventories	200,387	231,599
Excess of average cost over LIFO inventory value	67,448	74,881
Net inventories	<u>\$132,939</u>	<u>\$156,718</u>

Note C —Pensions and Other Post-retirement Benefits

As a result of a significant reduction in force, management determined that there was a curtailment of the domestic defined benefit pension plan in the first quarter 2009 in accordance with Statement No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

The plan assets and liabilities were remeasured as of the curtailment date of February 28, 2009. As part of the remeasurement, management reviewed the key assumptions and determined that the discount rate should be increased to 6.80% from the 6.15% rate assumed at December 31, 2008. The revised rate was determined using the same methodology as was employed at year-end 2008. All other key assumptions, including the expected rate of return on assets, remained unchanged from December 31, 2008.

The curtailment reduced the annual expense for 2009 on the domestic plan from a previously estimated \$5.3 million to \$4.3 million. In addition, the curtailment resulted in the recording of a \$1.1 million one-time benefit in the first quarter 2009 as a result of applying the percentage reduction in the estimated future working lifetime of the plan participants against the unrecognized prior service cost benefit. Cost of sales was reduced by \$0.8 million and selling, general and administrative expense was reduced by \$0.3 million from the recording of the one-time benefit.

The Company made contributions totaling \$14.0 million to the defined benefit pension plan in the first half of 2009 as expected.

The following is a summary of the second quarter and first half 2009 and 2008 net periodic benefit cost for the domestic defined benefit pension plan and the domestic retiree medical plan.

	Pension Benefits		Other Benefits	
	Second Quarter Ended		Second Quarter Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
<i>(Dollars in thousands)</i>				
Components of net periodic benefit cost				
Service cost	\$ 1,067	\$ 1,270	\$ 72	\$ 76
Interest cost	2,164	1,976	482	532
Expected return on plan assets	(2,445)	(2,180)	—	—
Amortization of prior service cost	(135)	(161)	(9)	(9)
Amortization of net loss	375	294	—	—
Net periodic benefit cost	<u>\$ 1,026</u>	<u>\$ 1,199</u>	<u>\$ 545</u>	<u>\$ 599</u>

	Pension Benefits		Other Benefits	
	First Half Ended		First Half Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
<i>(Dollars in thousands)</i>				
Components of net periodic benefit cost				
Service cost	\$ 2,182	\$ 2,540	\$ 145	\$ 152
Interest cost	4,157	3,952	964	1,063
Expected return on plan assets	(4,617)	(4,360)	—	—
Amortization of prior service cost	(278)	(322)	(18)	(18)
Amortization of net loss	809	589	—	—
Curtailment Gain	(1,069)	—	—	—
Net periodic benefit cost	<u>\$ 1,184</u>	<u>\$ 2,399</u>	<u>\$ 1,091</u>	<u>\$ 1,197</u>

Note D —Contingencies

Brush Wellman Inc., one of the Company's wholly owned subsidiaries, is a defendant in various legal proceedings where the plaintiffs allege that they have contracted chronic beryllium disease (CBD) or related ailments as a result of exposure to beryllium. Management believes that the Company has substantial defenses and intends to defend these suits vigorously. The Company has recorded a reserve for CBD litigation of \$1.9 million as of July 3, 2009 and \$2.0 million as of December 31, 2008. This reserve covers existing claims only and unasserted claims could give rise to additional losses. Defense costs are expensed as incurred. Final resolution of the asserted claims may be for different amounts than currently reserved. One case was dismissed and no settlement payments were made during the first half of 2009.

All of the outstanding CBD cases as of July 3, 2009 are third-party claims where the alleged exposure occurred prior to December 31, 2007 and therefore, the indemnity, if any, and the defense costs are covered by insurance subject to an annual deductible of \$1.0 million. Incurred costs were below the deductible in the first half of 2009.

Williams Advanced Materials Inc. (WAM), one of the Company's wholly owned subsidiaries, and a small number of WAM's customers are defendants in a patent infringement legal case. WAM has provided an indemnity agreement to certain of those customers under which WAM will pay any damages awarded by the court. WAM has not made any payments for damages on behalf of any customer nor has it recorded a reserve for losses under these agreements as of July 3, 2009. WAM believes it has strong defenses applicable to both WAM and its customers and is contesting this action. While WAM does not believe that a loss is probable, should its defenses not prevail, the damages to be paid may potentially be material to the Company's results of operations in the period of payment.

The Company has an active environmental compliance program and records reserves for the probable cost of identified environmental remediation projects. The reserves are established based upon analyses conducted by the

Company's engineers and outside consultants and are adjusted from time to time based upon on-going studies and the difference between actual and estimated costs. The reserves may also be affected by rulings and negotiations with regulatory agencies. The undiscounted reserve balance was \$6.0 million as of July 3, 2009 and \$6.3 million as of December 31, 2008. Environmental projects tend to be long-term and the final actual remediation costs may differ from the amounts currently recorded.

Note E — Comprehensive Income

The reconciliation between net (loss) income and comprehensive income (loss) for the second quarter and first half ended July 3, 2009 and June 27, 2008 is as follows:

	Second Quarter Ended		First Half Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
<i>(Dollars in thousands)</i>				
Net (loss) income	\$ (785)	\$ 7,158	\$(8,930)	\$11,754
Cumulative translation adjustment	1,460	(1,033)	(1,126)	1,731
Change in the fair value of derivative financial instruments, net of tax	(984)	2,030	340	(765)
Pension and other retirement plan liability adjustments, net of tax	373	123	2,125	247
Comprehensive income (loss)	<u>\$ 64</u>	<u>\$ 8,278</u>	<u>\$(7,591)</u>	<u>\$12,967</u>

Note F — Segment Reporting

Segment information for 2008 has been recast to include Zentrix Technologies Inc. in the Advanced Material Technologies and Services segment. Zentrix's results previously were reported in All Other. Beginning in 2009, Zentrix is being managed by Advanced Material Technologies and Services and is included with that segment's financial results in the Company's internal reporting.

	Advanced Material Technologies and Services	Specialty Engineered Alloys	Beryllium and Beryllium Composites	Engineered Material Systems	Subtotal	All Other	Total
<i>(Dollars in thousands)</i>							
Second Quarter 2009							
Revenues from external customers	\$ 112,273	\$ 41,239	\$ 13,123	\$ 7,499	\$174,134	\$ —	\$174,134
Intersegment revenues	50	470	26	185	731	—	731
Operating profit (loss)	8,390	(9,280)	1,035	(819)	(674)	(886)	(1,560)
Second Quarter 2008							
Revenues from external customers	\$ 129,270	\$ 83,029	\$ 14,711	\$ 19,574	\$246,584	\$ —	\$246,584
Intersegment revenues	503	1,125	170	416	2,214	—	2,214
Operating profit (loss)	5,048	4,750	2,346	2,003	14,147	(2,535)	11,612
First Half 2009							
Revenues from external customers	\$ 192,344	\$ 78,132	\$ 26,113	\$ 12,904	\$309,493	\$ —	\$309,493
Intersegment revenues	175	1,275	78	543	2,071	—	2,071
Operating profit (loss)	9,095	(20,193)	2,859	(3,450)	(11,689)	(1,264)	(12,953)
Assets	208,971	205,947	59,383	18,590	492,891	57,382	550,273
First Half 2008							
Revenues from external customers	\$ 253,270	\$ 154,326	\$ 28,075	\$ 37,260	\$472,931	\$ —	\$472,931
Intersegment revenues	897	3,194	293	751	5,135	—	5,135
Operating profit (loss)	10,520	5,454	2,573	3,365	21,912	(2,329)	19,583
Assets	255,004	255,384	43,981	28,117	582,486	33,098	615,584

Note G — Stock-based Compensation Expense

The Company granted approximately 145,000 shares of restricted stock to certain employees in the first quarter 2009 at a fair value of \$15.01 per share. The fair value was determined using the closing price of the

Company's common stock on the grant date and will be amortized over the vesting period of three years. The holders of the restricted stock will forfeit their shares should their employment be terminated prior to the end of the vesting period.

The Company granted approximately 350,000 stock appreciation rights (SARs) to certain employees in the first quarter 2009 at a strike price of \$15.01 per share. The fair value of the SARs, which was determined on the grant date using a Black-Scholes model, was \$7.83 per share and will be amortized over the vesting period of three years. The SARs expire ten years from the date of the grant.

The Company granted approximately 25,000 shares of restricted stock to its non-employee directors in the second quarter 2009 at a fair value of \$18.27 per share. The fair value was determined by using the closing price of the Company's common stock on the grant date and will be amortized over the vesting period of one year.

Total stock-based compensation expense for the above and previously existing awards and plans was \$1.0 million in the second quarter 2009 and \$1.2 million in the second quarter 2008. For the first half of the year, stock-based compensation totaled \$1.6 million in 2009 and \$2.5 million in 2008.

Note H —Income Taxes

The tax benefit of \$1.0 million in the second quarter 2009 was calculated by applying a rate of 57.1% against the loss before income taxes while the tax benefit in the first half of 2009 of \$4.6 million was calculated by applying a rate of 34.1% against the loss before income taxes in that period. In 2008, a tax expense of \$3.8 million was recorded in the second quarter based upon an effective rate of 34.7% of income before income taxes. In the first half of 2008, the tax expense of \$6.8 million was calculated based upon an effective rate of 36.8% of the income before income taxes.

The impact of percentage depletion, foreign source income and deductions and other factors were major causes of the differences between the effective and statutory tax rates in all periods presented. The production deduction was also a major cause of the difference in 2008 and in the first quarter 2009. The effective rate in the first half of 2008 was also impacted by discrete events recorded in that period, including a deferred tax adjustment. Discrete events had an immaterial impact on the effective rate in the second quarter and first half of 2009. The percentage impact on the effective rate of tax adjustments that are relatively fixed in dollar terms will change due to significant differences in the income or loss before income taxes between periods.

The higher tax rate in the second quarter 2009 as compared to the first quarter 2009 increased the tax benefit and decreased the net loss in the second quarter 2009 by \$0.5 million, or \$0.02 per share.

Note I —Fair Value of Financial Instruments

The Company measures and records the outstanding foreign currency derivative contracts at fair value in the accompanying consolidated financials statements in accordance with Statement No. 157, "Fair Value Measurements". This statement establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 — Quoted market prices in active markets for identical assets and liabilities;

Level 2 — Inputs other than Level 1 inputs that are either directly or indirectly observable; and

Level 3 — Unobservable inputs developed using estimates and assumptions developed by the Company, which reflect those that a market participant would use.

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as of July 3, 2009:

(Dollars in thousands) Description	July 3, 2009	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Directors' deferred compensation investment	\$ 818	\$ 818	\$ —	\$ —
Total	\$ 818	\$ 818	\$ —	\$ —
Financial Liabilities				
Foreign currency forward contracts	\$ 633	\$ —	\$ 633	\$ —
Directors' deferred compensation liability	818	818	—	—
Total	\$1,451	\$ 818	\$ 633	\$ —

The Company uses a market approach to value the assets and liabilities for outstanding derivative contracts in the table above. These contracts are valued using a market approach which incorporates quoted market prices at the balance sheet date.

The carrying values of the other working capital items and debt on the Company's balance sheet approximates their fair values.

Note J —Derivative Instruments and Hedging Activity

The Company adopted Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133," effective January 1, 2009. The disclosure requirements of this statement are contained in this note to the Company's consolidated financial statements.

The Company sells products to overseas customers in their local currencies, primarily the euro, sterling and yen. The Company uses foreign currency derivatives, mainly forward contracts and options, to hedge these anticipated sales transactions. The purpose of the hedge program is to protect against the reduction in dollar value of the foreign currency sales from adverse exchange rate movements. Should the dollar strengthen significantly, the decrease in the translated value of the foreign currency sales should be partially offset by gains on the hedge contracts. Depending upon the methods used, the hedge contract may limit the benefits from a weakening U.S. dollar.

The use of foreign currency derivative contracts is governed by policies approved by the Board of Directors. A team consisting of senior financial managers reviews the estimated exposure levels, as defined by budgets, forecasts and other internal data, and determines the timing, amounts and instruments to use to hedge that exposure within the confines of the policy. Management analyzes the effective hedged rates and the actual and projected gains and losses on the hedging transactions against the program objectives, targeted rates and levels of risk assumed. Hedge contracts are typically layered in at different times for a specified exposure period in order to minimize the impact of rate movements.

The use of forward contracts locks in a firm rate and eliminates any downside from an adverse rate movement as well as any benefit from a favorable rate movement. The Company may from time to time choose to hedge with options or a tandem of options known as a collar. These hedging techniques can limit or eliminate the downside risk but can allow for some or all of the benefit from a favorable rate movement to be realized. Unlike a forward, a premium is paid for an option; collars, which are a combination of a put and call option, may have a net premium but

they can be structured to be cash neutral. The Company will primarily hedge with forwards due to the relationship between the cash outlay and the level of risk.

The Company will only enter into a derivative contract if there is an underlying identified exposure. Contracts are typically held until maturity. The Company does not engage in derivative trading activities and does not use derivatives for speculative purposes. The Company only uses currency hedge contracts that are denominated in the same currency as the underlying exposure.

Under Statement No. 133, all derivatives are recorded on the balance sheet at their fair values. If the derivative is designated and effective as a hedge, depending upon the nature of the hedge, changes in the fair value of the derivative are either offset against the change in the fair value of the hedged asset, liability or firm commitment through earnings or recognized in other comprehensive income (OCI), a component of shareholders' equity, until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, if any, is recognized in earnings immediately. If a derivative is not a hedge, changes in the fair value are adjusted through income.

The notional value of the outstanding foreign currency forward contracts totaled \$26.8 million as of July 3, 2009. All of these derivatives were designated as and are effective as cash flow hedges. The fair values of the outstanding derivatives are recorded on the balance sheet as assets (if the derivatives are in a gain position) or liabilities (if the derivatives are in a loss position). The fair values will also be classified as short-term or long-term depending upon their maturity dates. There is no ineffectiveness associated with the outstanding derivatives. Changes in the fair value of the outstanding derivative contracts are recorded in OCI and are charged or credited to income when the contracts mature and the underlying anticipated sales transactions occur.

The balance sheet classification and the related fair values of the outstanding foreign currency forward contracts as of July 3, 2009 were as follows (dollars in thousands):

Liabilities	
Classification	Fair Value
Other Liabilities and Accrued Items	\$ 633

A summary of the hedging relationships of the outstanding derivative financial instruments as of July 3, 2009 and June 27, 2008 and the amounts transferred into income for the second quarter and first half then ended is as follows:

	Second Quarter Ended		First Half Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
<i>(Dollars in Thousands)</i>				
Derivative in Cash Flow Hedging Relationship	Foreign Currency Contracts	Foreign Currency Contracts	Foreign Currency Contracts	Foreign Currency Contracts
Effective Portion of Hedge:				
Gain (Loss) Recognized in OCI at the End of the Period				
Forward contracts	\$ (633)	\$ (1,433)		
Options (collars)	—	(637)		
Total	\$ (633)	\$ (2,070)		
Location of Gain (Loss) Reclassified from OCI into Income	Other-net	Other-net	Other-net	Other-net
Amount of Gain (Loss) Reclassified from OCI into Income				
Forward contracts	\$ 467	\$ (1,298)	\$ 267	\$ (1,826)
Options (collars)	—	(182)	212	(182)
Total	\$ 467	\$ (1,480)	\$ 479	\$ (2,008)
Ineffective Portion of Hedge and Amounts Excluded from Effectiveness Testing:				
Location of Gain (Loss) Recognized in Income on Derivative	Other-net	Other-net	Other-net	Other-net
Amount of Gain (Loss) Recognized in Income on Derivative	\$ —	\$ —	\$ —	\$ —

The Company had an interest rate swap that was initially designated as a cash flow hedge under Statement No. 133. However, the underlying hedged item was terminated early and the swap no longer qualified as a hedge under the statement's provisions. An immaterial gain was recorded in other-net on the consolidated statement of income in the second quarter 2008 on this swap. A loss of \$0.2 million was recorded on the swap in the first half of 2008. The swap was terminated in the fourth quarter 2008.

In 2007, the Company terminated early various commodity swaps that were designated as cash flow hedges. The gains on the early terminations were deferred into OCI until the original hedged items, the purchases of copper, were acquired and then relieved from inventory. During the first half of 2008, gains totaling \$0.2 million were relieved from OCI and credited to cost of sales on the consolidated income statement. The deferred gains on the commodity swaps were fully amortized out of OCI as of the end of the second quarter 2008.

The Company expects to relieve \$0.6 million from OCI and charge other-net on the consolidated income statement in the twelve month period beginning July 4, 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are an integrated producer of high performance specialty engineered materials used in a variety of electrical, electronic, thermal and structural applications. Our products are sold into numerous markets, including telecommunications and computer, aerospace and defense, automotive electronics, industrial components, appliance, medical and data storage.

Sales were \$174.1 million in the second quarter 2009 compared to \$246.6 million in the second quarter 2008 as the impact of the global economic crisis and the related decline in consumer spending, which began to affect us in the fourth quarter 2008, continued to adversely affect the demand from many of our key markets. Sales in the second quarter 2009, however, were \$38.7 million higher than sales of \$135.4 million in the first quarter 2009. We believe that the rate of decline in our sales in the first quarter 2009 was greater than the fall-off in consumer spending due to the excess inventory positions throughout the supply chain and that a portion of the improvement in sales in the second quarter over the first quarter was due to the depletion of these excess inventories.

Sales were also lower in the second quarter and first half of 2009 than the respective periods of 2008 due to a lower average metal price pass-through.

Margins and profitability declined due to the lower sales volume in the second quarter and first half of 2009. An unfavorable product mix shift and manufacturing inefficiencies as a result of the lower production volumes also reduced profitability in the current year.

In response to the weaker economic conditions, we took various actions, including reducing headcount, freezing and then cutting wages, reducing work hours, eliminating the 401(k) savings plan match, cancelling or suspending lower priority programs, reducing discretionary spending and other cost-saving initiatives. These actions, net of the related severance costs that were primarily recorded in the first quarter 2009, helped mitigate the impact of the lower sales volume. The combination of the cost initiatives and improved sales resulted in a loss of \$0.04 per share in the second quarter after a loss of \$0.40 per share in the first quarter 2009 and income of \$0.35 per share in the second quarter 2008.

Despite the net loss for the first half of 2009, debt declined \$3.4 million while cash increased \$2.5 million. Cash flow from operating activities was a solid \$11.7 million in the first six months of 2009, with the second quarter 2009 being particularly strong. Capital spending, net of the reimbursement from the government for the construction of a new primary beryllium facility, continued to be managed to low levels and has been reduced to high-priority and maintenance capital levels.

The debt-to-debt-plus-equity ratio as of the end of the second quarter 2009 was the lowest level since the fourth quarter 2007, which was prior to the \$86.5 million acquisition of Techni-Met, Inc.

Results of Operations

	Second Quarter Ended		First Half Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
<i>(Millions, except per share data)</i>				
Sales	\$174.1	\$246.6	\$309.5	\$472.9
Operating profit (loss)	(1.6)	11.6	(13.0)	19.6
Income (loss) before income taxes	(1.8)	11.0	(13.6)	18.6
Net income (loss)	(0.8)	7.2	(8.9)	11.8
Diluted earnings per share	\$ (0.04)	\$ 0.35	\$ (0.44)	\$ 0.57

Sales of \$174.1 million in the second quarter 2009 declined \$72.5 million, or 29%, from sales of \$246.6 million in the second quarter 2008. For the first six months of the year, sales of \$309.5 million in 2009 were 35% lower than sales of \$472.9 million in 2008.

Domestic sales declined 27% in the second quarter 2009 and 32% in the first half of 2009 from the comparable periods in 2008. International sales were 34% lower in the second quarter 2009 and 39% lower in the first half of 2009 than the same periods in 2008. International sales were 33% of total sales in the first half of 2009 and 35% of sales in the first half of 2008.

Sales to all major international regions were lower in the second quarter 2009 and the first half of 2009 than in the same periods of the prior year. The impact of translating foreign currency denominated sales was an unfavorable \$0.6 million in the second quarter 2009 as compared to the second quarter 2008 and an unfavorable \$0.9 million in the first half of 2009 compared to the first half of 2008.

While sales were lower thus far in 2009 than the comparable periods of 2008, sales in the second quarter 2009 improved \$38.7 million, or 29%, over sales in the first quarter 2009. Both domestic and international sales grew in the second quarter over the first quarter, with the majority of the international growth coming from Asia. The order entry rate also improved in the second quarter over the first quarter 2009.

Demand from the telecommunications and computer market, our largest market, and the automotive electronics, data storage and other markets that are directly related to consumer spending levels softened considerably due to the weak economic conditions generally beginning in the fourth quarter 2008. The demand for our products appears to have fallen at a greater rate than the slowdown in consumer spending due to the high inventory positions in the downstream supply chain. Our products are the raw materials for the final product and there typically are a number of fabricators, assemblers and distributors between the end-use consumer and us. We believe that when the global economic slowdown hit, these fabricators, assemblers and distributors were holding significantly higher levels of inventory than required to meet the then current demand. As a result, these inventory levels need to be worked down throughout the supply chain before our order entry level can rebound to prior levels. We believe that a portion of the growth in sales in the second quarter over the first quarter 2009 was due to inventories in the supply chain being depleted and needing to be replenished to meet the current consumer demand levels.

Demand from the defense market remained firm during the first half of 2009. The demand from the medical market, which had been strong, softened in the second quarter; we anticipate some improvement in this market over the balance of the year.

We use ruthenium, gold, silver, platinum, palladium and copper in the manufacture of various products. Our sales are affected by the prices for these metals, as changes in our purchase price are passed on to our customers in the form of higher or lower selling prices. The average prices between periods for some metals increased while others decreased during the second quarter. The net impact of the change in metal prices was an estimated \$14.0 million reduction in sales in the second quarter 2009 from the second quarter 2008 and an estimated \$29.1 million reduction in sales in the first half of 2009 from the first half of 2008.

We implemented various cost-saving initiatives beginning late in the fourth quarter 2008 and throughout the first half of 2009 in response to the weakening order entry rate at that time. By the end of the second quarter, total manpower was reduced by 14% from year-end 2008 levels and 17% from the end of the third quarter 2008. Compensation levels have been frozen and/or reduced. Overtime in the plants was eliminated and regular work hours were reduced in many cases. The Company match for the 401(k) savings plan was first reduced in half and then suspended altogether for the majority of employees. Discretionary spending has been reduced and various projects and initiatives have been cancelled or delayed. These cost-saving initiatives favorably impacted gross margins and selling, general and administrative expenses in the second quarter and first half of 2009. We paid approximately \$1.0 million in severance benefits associated with the headcount reductions, primarily during the first quarter 2009.

Gross margin was \$22.1 million, or 13% of sales, in the second quarter 2009 compared to \$44.6 million, or 18% of sales, in the second quarter 2008. For the first six months of the year, gross margin was \$36.7 million, or 12% of sales, in 2009 and \$81.6 million, or 17% of sales, in 2008.

The \$22.5 million reduction in the gross margin in the second quarter and the \$44.9 million reduction in the gross margin for the first half of 2009 were largely due to the decline in sales from the comparable periods in 2008. Manufacturing inefficiencies, primarily due to the lower production volumes and the related impact on manning levels and utilization of equipment, also contributed to the margin decline in 2009. The change in product mix was unfavorable in both the second quarter and first half of 2009.

The cost-saving initiatives, including the manpower reductions, pay cuts and other programs, helped to offset a portion of the unfavorable impact these items had on gross margin.

The gross margin in the first half of 2009 was reduced by lower of cost or market charges on ruthenium-based inventories of \$0.8 million and other net inventory valuation adjustments totaling \$0.6 million recorded in the first quarter 2009. The gross margin in the second quarter 2008 was reduced by a lower of cost of market charge on ruthenium-based inventories of \$6.0 million recorded in that period.

The reduction in gross margin as a percent of sales in both the second quarter and first six months of 2009 from the comparable periods in 2008 was partially due to certain manufacturing overhead costs, including depreciation, rent, insurance and other items, being relatively fixed in the short-term regardless of the sales level.

In the first quarter 2009, we determined that the domestic defined benefit pension plan was curtailed due to the significant reduction in force. As a result of the curtailment and the associated remeasurement, we recorded a \$1.1 million one-time benefit during the first quarter 2009, \$0.8 million of which was recorded against cost of sales and \$0.3 million recorded against selling, general and administrative expenses on the Consolidated Statements of Income. The 2009 annual expense under the plan was also reduced by \$1.0 million from what it would have been had the plan not been curtailed. See Critical Accounting Policies.

Selling, general and administrative (SG&A) expenses totaled \$20.7 million in the second quarter 2009 and were \$7.6 million lower than the total expense of \$28.3 million in the second quarter 2008. SG&A expenses of \$43.2 million in the first six months of 2009 were \$11.8 million lower than expenses of \$55.0 million in the first six months of 2008. SG&A expenses were 14% of sales in the first six months of 2009 and 12% of sales in the first six months of 2008. The increased percentage was due to sales being lower in the first six months of 2009 than the first six months of 2008.

The lower SG&A expenses in both the second quarter and first half of 2009 largely resulted from the cost-saving initiatives previously referenced. Discretionary spending items such as travel, dues and subscriptions and advertising were lower in the second quarter and first half of 2009 than the respective periods in 2008 while commissions were lower in 2009 as those expenses are a function of the sales volume.

Incentive compensation expense under cash-based plans was \$1.4 million lower in the second quarter 2009 than the second quarter 2008 and \$1.9 million lower in the first half of 2009 than the first half of 2008 due to the lower levels of profitability in the current year relative to the plan targets. Share-based compensation expense was an additional \$0.2 million lower in the second quarter 2009 than the second quarter 2008 and \$0.8 million lower in the first half of 2009 than the first half of 2008.

In addition to the lower expense from the curtailment of the defined benefit pension plan, the expense on the supplemental retirement plan for certain executives was \$0.3 million lower in the first six months of 2009 than in the first six months of 2008.

International SG&A expenses, other than incentive compensation, declined \$1.7 million in the second quarter 2009 from the second quarter 2008 and \$2.8 million in the first half of 2009 from the first half of 2008. This decline includes approximately \$0.3 million in the second quarter and \$0.6 million in the first half of 2009 due to the translation benefits from the movement in exchange rates between periods.

Research and development (R&D) expenses were \$1.5 million in the second quarter 2009 compared to \$1.6 million in the second quarter 2008. R&D expenses were \$3.2 million in the first half of 2009, a slight increase over the expense of \$3.1 million in the first half of 2008. We continued to invest in process and product improvement efforts during the second quarter and first half of 2009 in order to enhance long-term growth opportunities.

Other-net expense for the second quarter and first half of 2009 and 2008 is summarized as follows:

	Income (expense)			
	Second Quarter Ended		First Half Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
(Millions)				
Exchange/translation gain	\$ 0.3	\$ (1.5)	\$ 0.6	\$ (1.4)
Amortization of intangible assets	(0.9)	(0.2)	(1.8)	(0.4)
Metal financing fees	(0.7)	(1.2)	(1.6)	(2.0)
Directors' deferred compensation	—	—	(0.1)	0.6
Other items	(0.2)	(0.2)	(0.3)	(0.7)
Total	\$ (1.5)	\$ (3.1)	\$ (3.2)	\$ (3.9)

Exchange and translation gains and losses are a function of the movement in the value of the U.S. dollar versus certain other currencies and in relation to the strike prices in currency hedge contracts.

The amortization of intangible assets was higher in the second quarter and first half of 2009 than the same periods of 2008 due to the finalization of the appraisal in the fourth quarter 2008 of the intangible assets acquired with Techni-Met, Inc. in February 2008.

The metal financing fee was lower in the second quarter 2009 than the second quarter 2008; in the first quarter 2009, the fee was slightly higher than the same quarter in the prior year. The fee is a function of the quantity of metal on hand and the average financing rate.

The income or expense on the directors' deferred compensation plan was a function of the outstanding shares in the plan and the movement in the share price of our common stock. In the first quarter 2009, the Board of Directors amended the deferred compensation plan, eliminating the directors' ability to transfer their deferral balance between stock and other investment options allowable under the plan. As a result of the amendment, effective with the beginning of the second quarter 2009, the shares being held are no longer marked-to-market against the income statement in accordance with accounting guidelines.

Other-net also includes bad debt expense, gains and losses on the disposal of fixed assets, cash discounts and other non-operating items.

The **operating loss** was \$1.6 million in the second quarter 2009 and \$13.0 million in the first six months of 2009. In 2008, operating profit was \$11.6 million in the second quarter and \$19.6 million in first six months of the year. The decline in profitability in both the second quarter and first half of 2009 was primarily due to the lower margin generated by the significantly reduced sales volume and other factors, offset in part by the various cost-saving initiatives and lower other-net expenses.

Interest expense-net of \$0.3 million in the second quarter 2009 was approximately half of the expense from the second quarter 2008. The net interest expense was \$0.6 million in the first half of 2009 compared to \$1.0 million in the first half of 2008. The lower expense was primarily due to lower outstanding debt levels in 2009. Debt had

increased in the first quarter 2008 due to the Techni-Met acquisition in that period, but the subsequent cash flow from operations has allowed the debt balance to be reduced. The effective borrowing rate was lower in the second quarter 2009 than the second quarter 2008 as well. These benefits were partially offset by a slight reduction in the amounts capitalized in association with capital projects.

The **loss before income taxes** was \$1.8 million in the second quarter 2009 and \$13.6 million in the first six months of 2009. In 2008, income before income taxes was \$11.0 million in the second quarter and \$18.6 million in the first six months of the year.

A **tax benefit** was calculated using an effective rate of 57% of the loss before income taxes in the second quarter 2009 and 34% of the loss before income taxes in the first half of 2009. In 2008, a tax expense was calculated using an effective rate of 35% of income before income taxes in the second quarter and 37% in the first six months of the year.

The effects of percentage depletion, foreign source income and other items were the major factors for the difference between the effective and statutory rates in both the second quarter and first six months of 2009 and 2008. The production deduction was also a major factor affecting the rate in the second quarter and first half of 2008. The impact of discrete events recorded in the first quarter 2008 served to increase the effective rate in that period while discrete events had a minor impact on the effective rate in the second quarter and first six months of 2009. The percentage impact of tax adjustments that have a relatively fixed dollar amount will also vary due to significant movements in the level of the income or loss before income taxes.

The **net loss** was \$0.8 million (or \$0.04 per share, diluted) in the second quarter 2009 compared to net income of \$7.2 million (or \$0.35 per share, diluted) in the second quarter 2008. For the first six months of the year, the net loss was \$8.9 million (or \$0.44 per share, diluted) in 2009 versus net income of \$11.8 million (or \$0.57 per share, diluted) in 2008.

Segment Results

We have four reportable segments. Beginning in the first quarter 2009, the operating results for Zentrix Technologies Inc., a small wholly owned subsidiary, are included in the Advanced Material Technologies and Services segment. Previously, Zentrix had been included with the corporate office as part of All Other. We made this change because the Advanced Material Technologies and Services segment management is now responsible for Zentrix and this structure is consistent with our internal reporting and how the Chairman of the Board evaluates the operations. The results for the prior year have been recast to reflect this change. See Note F to the Consolidated Financial Statements.

The operating loss within All Other improved \$1.6 million in the second quarter 2009 from the second quarter 2008. The improvement was due largely to the cost saving initiatives, including wage and benefit reductions, and lower incentive compensation expense. For the first half of the year, the operating loss within All Other was \$1.0 million better in 2009 than in 2008 as portions of the cost reduction benefits were offset by a higher expense on the directors' deferred compensation plan and other factors.

Advanced Material Technologies and Services

(Millions)	<u>Second Quarter Ended</u>		<u>First Half Ended</u>	
	<u>July 3, 2009</u>	<u>June 27, 2008</u>	<u>July 3, 2009</u>	<u>June 27, 2008</u>
Sales	\$112.3	\$129.3	\$192.3	\$253.3
Operating profit	\$ 8.4	\$ 5.0	\$ 9.1	\$ 10.5

Advanced Material Technologies and Services manufactures precious, non-precious and specialty metal products, including vapor deposition targets, frame lid assemblies, clad and precious metal preforms, high temperature braze materials, ultra-fine wire, specialty inorganic materials, optics, performance coatings and microelectronic packages. Major markets for these products include data storage, medical and the wireless, semiconductor, photonic and hybrid sectors of the microelectronics market. Advanced Material Technologies and Services also has metal cleaning operations and an in-house refinery that allow for the reclaim of precious metals

from its own or customers' scrap. Due to the high cost of precious metal products, we emphasize quality, delivery performance and customer service in order to attract and maintain applications. This segment has domestic facilities in New York, California, Connecticut, Wisconsin and Massachusetts and international facilities in Asia and Europe.

Sales from Advanced Material Technologies and Services declined 13% from \$129.3 million in the second quarter 2008 to \$112.3 million in the second quarter 2009 while sales in the first half of the year declined 24% from \$253.3 million in 2008 to \$192.3 million in 2009.

While sales were lower in the second quarter and first six months of 2009 than the respective periods of 2008, sales in the second quarter 2009 were 40% higher than sales in the first quarter 2009.

Advanced Material Technologies and Services adjusts its selling prices daily to reflect the current cost of the precious and certain other metals that are sold. The cost of the metal is generally a pass-through to the customer and a margin is generated on the fabrication efforts irrespective of the type or cost of the metal used in a given application. Therefore, the cost and mix of metals sold will affect sales but not necessarily the margins generated by those sales. The net lower average prices of gold, silver, platinum, palladium and ruthenium accounted for an estimated \$9.3 million of the \$17.0 million decline in sales in the second quarter and \$20.4 million of the \$61.0 million decline in sales in the first half of 2009 compared to the first half of 2008.

Sales of vapor deposition targets and other materials manufactured at the Buffalo, New York facility were lower in the second quarter 2009 than in the second quarter 2008, while sales for the first half of 2009 were significantly lower than the first half of 2008. The decline in sales in the second quarter and first six months of 2009 was due to weak demand from the wireless, photonic, microelectronic packaging and other market segments due to the global economic conditions. With the softening of these markets, refining business levels in turn declined due to the lower quantities of materials available to be processed. However, market conditions improved in the second quarter 2009 and sales from the Buffalo facility grew in the second quarter 2009 over the first quarter 2009 and were largely responsible for the growth in total segment sales in the second quarter over the first quarter 2009.

Sales from Techni-Met, a wholly owned subsidiary acquired early in the first quarter 2008, declined 5% in the second quarter 2009 from the second quarter 2008, but for the first half of the year, sales were still 15% higher in 2009 than in 2008. The majority of Techni-Met's products are used in medical applications and we believe that their shipment levels will improve over the balance of 2009.

Sales from Thin Film Technology, Inc. (TFT) continued to be strong in the second quarter 2009 and grew over 20% in the first half of 2009 from the first half of 2008. This growth was due to medical and defense applications and their sales backlog as of the end of the second quarter was quite solid.

Sales of inorganic chemicals were lower in both the second quarter and first half of 2009 than the comparable periods in 2008. Demand from the markets served by these products remained soft during the first half of 2009 and we anticipate it will remain soft during the second half of the year.

Sales of microelectronic packages from Zentrix were higher in the second quarter 2009 than in the second quarter 2008 and were essentially unchanged in the first six months of 2009 from the first six months of 2008.

Total sales for media applications in the data storage market, including sales of ruthenium-based targets from the Brewster, New York facility, in the second quarter and first half of 2009 were very weak as they were for the majority of 2008. We have made progress re-qualifying our materials with key customers; certain materials have been re-qualified while the process is continuing for others. Demand from the data storage market had been depressed in the first quarter 2009 due to the lower consumer spending levels and other factors; however, the market appeared to be gaining some strength late in the second quarter 2009.

Sales for magnetic head applications from the Brewster facility showed improvement in the second quarter 2009.

The gross margin on Advanced Material Technologies and Services' sales was \$18.3 million in the second quarter 2009, a \$1.3 million increase over the \$17.0 million of margin generated in the second quarter 2008. The gross margin was 16% of sales in the second quarter 2009 and 13% of sales in the second quarter 2008. For the first

half of the year, gross margin was \$30.0 million (16% of sales) in 2009 compared to \$33.6 million (13% of sales) in 2008.

The gross margin improved in the second quarter 2009 despite the lower sales as a result of a \$6.0 million lower of cost or market charge recorded in the second quarter 2008. Manufacturing overhead costs were also \$0.3 million lower in the second quarter 2009 than in the second quarter 2008 largely due to the cost saving initiatives. The lower sales volume, an unfavorable change in the product mix and other factors combined to reduce margins by \$5.0 million in the second quarter 2009 as compared to the second quarter 2008.

In addition to the aforementioned \$6.0 million lower of cost or market charge, the gross margin comparison between the first half of 2009 and the first half of 2008 was affected by the margin lost due to the lower sales, a lower of cost or market charge of \$0.8 million recorded in the first quarter 2009 and an inventory valuation charge of \$0.6 million recorded in the first quarter 2009. In addition, manufacturing overhead costs were \$0.3 million higher in the first half of 2009 than the first half of 2008 as the cost savings were more than offset by owning Techni-Met for a full six months in 2009 and other factors.

Total SG&A, R&D and other-net expenses were \$9.9 million (9% of sales) in the second quarter 2009, a decline of \$2.1 million from the expense total of \$12.0 million (9% of sales) in the second quarter 2008. These expenses totaled \$20.9 million (11% of sales) in the first half of 2009 and \$23.1 million (9% of sales) in the first half of 2008.

The lower expense in the second quarter 2009 was partially due to the impact of the cost-saving initiatives implemented during the first and second quarters of 2009. Selling-related expenses and corporate allocations were also lower in the second quarter and first six months of 2009 than in the comparable periods of 2008. Metal financing fees were lower in the second quarter 2009 than the second quarter 2008 after being slightly higher in the first quarter 2009 than the first quarter 2008. These benefits were partially offset by the increased amortization expense on the intangible assets acquired with Techni-Met.

Operating profit from Advanced Material Technologies and Services was \$8.4 million in the second quarter 2009, a \$3.4 million improvement over the profit generated in the second quarter 2008. The improvement was due to a combination of the margin growth and the reduced SG&A, R&D and other-net expenses. For the first half of the year, operating profit was \$9.1 million (5% of sales) in 2009 and \$10.5 million (4% of sales) in 2008.

Specialty Engineered Alloys

	<u>Second Quarter Ended</u>		<u>First Half Ended</u>	
	<u>July 3,</u>	<u>June 27,</u>	<u>July 3,</u>	<u>June 27,</u>
(Millions)	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Sales	\$41.2	\$ 83.0	\$ 78.1	\$ 154.3
Operating profit (loss)	\$ (9.3)	\$ 4.8	\$(20.2)	\$ 5.5

Specialty Engineered Alloys manufactures and sells three main product families:

Strip products, the larger of the product families, include thin gauge precision strip and small diameter rod and wire. These copper and nickel beryllium alloys provide a combination of high conductivity, high reliability and formability for use as connectors, contacts, switches, relays and shielding. Major markets for strip products include telecommunications and computer, automotive electronics, appliance and medical;

Bulk products are copper and nickel-based alloys manufactured in plate, rod, bar, tube and other customized forms that, depending upon the application, may provide superior strength, corrosion or wear resistance, thermal conductivity or lubricity. The majority of bulk products contain beryllium. Applications for bulk products include plastic mold tooling, bearings, bushings, welding rods, oil and gas drilling components and undersea telecommunications housing equipment; and,

Beryllium hydroxide is produced by Brush Resources Inc., a wholly owned subsidiary, at its milling operations in Utah from its bertrandite mine and purchased beryl ore. The hydroxide is used primarily as a raw material input for strip and bulk products as well as by the Beryllium and Beryllium Composites segment.

Strip and bulk products are manufactured at facilities in Ohio and Pennsylvania and are distributed worldwide through a network of company-owned service centers and outside distributors and agents.

Sales by Specialty Engineered Alloys of \$41.2 million in the second quarter 2009 were less than half of the sales of \$83.0 million in the second quarter 2008. Sales of \$78.1 million in the first six months of 2009 were 49% lower than sales of \$154.3 million in the first six months of 2008. Sales of strip and bulk products declined in the second quarter and first six months of 2009 from the levels in the comparable periods of 2008. Sales of hydroxide from the Utah operations totaled \$5.9 million in the second quarter 2009 and \$3.3 million in the second quarter 2008. There were no sales of beryllium hydroxide in either the first quarter 2009 or 2008.

Strip volumes shipped in the second quarter 2009 improved 13% over the first quarter 2009 levels but were still 45% lower than in the second quarter 2008. Volumes for the first six months of 2009 were 47% lower than the first six months of 2008.

The reduction in shipments in the quarter and first six months of 2009 compared to last year was across both the higher and lower beryllium-containing alloy product lines. Lower consumer spending and excess inventories in the supply chain resulted in weaker demand from the telecommunications and computer, automotive electronics and other markets for strip products. The improvement in strip sales in the second quarter over the first quarter 2009 was partially due to increased orders for handset applications, primarily in Asia.

Bulk product volumes shipped were down 55% in the second quarter and 45% in the first six months of 2009 from the year-ago periods. The decline in shipments was due to weak demand from the oil and gas and aerospace markets coupled with high downstream inventory positions within the supply chain. Bulk product sales into the oil and gas market were weak as a result of the soft demand for energy which is keeping the price of oil below the level that would spur exploration and production increases. Aerospace market sales were also soft due to ongoing deferrals of new aircraft deliveries and decreased repair and maintenance activities.

Lower metal prices accounted for an estimated \$4.6 million of the \$41.8 million difference in sales between the second quarter 2009 and the second quarter 2008 and \$8.7 million of the \$76.2 million difference in sales between the first six months of 2009 and the first six months of 2008.

The gross margin on Specialty Engineered Alloys' sales was \$0.2 million in the second quarter 2009 and a negative \$1.1 million in the first six months of 2009. In 2008, the gross margin was \$19.1 million (23% of sales) in the second quarter and \$32.7 million (21% of sales) in the first six months of the year.

The lower margin in both the second quarter and first six months of 2009 versus the comparable periods in 2008 was largely due to the significantly lower sales volume.

Margins were also hurt by manufacturing inefficiencies and machine utilization rates as a result of lower production volumes. The change in product mix was unfavorable in 2009 as well. Headcount reductions, reduced work hours, wage cut-backs and other cost-saving measures offset a portion of the negative volume impact and inefficiencies.

Total SG&A, R&D and other-net expenses were \$9.4 million (23% of sales) in the second quarter 2009 and \$14.4 million (17% of sales) in the second quarter 2008. For the first half of the year, these expenses totaled \$19.0 million (24% of sales) in 2009 and \$27.3 million (18% of sales) in 2008 as expenses in 2009 have been reduced 30% from 2008 levels.

The expense reduction was due to a combination of the cost-saving initiatives, lower incentive accruals, reduced corporate charges and differences in exchange gains and losses between periods. The cost-saving initiatives have resulted in lower manpower, travel, advertising and other expenses. Outside commissions were also significantly lower due to the lower sales.

Specialty Engineered Alloys generated an operating loss of \$9.3 million in the second quarter 2009 and \$20.2 million in the first half of 2009. In 2008, this segment generated an operating profit of \$4.8 million in the second quarter and \$5.5 million in the first half of the year. The year-to-date operating loss in 2009 included severance costs of \$0.5 million recorded in the first quarter.

The recent global economic downturn has significantly affected worldwide demand for Alloy strip products. Considering the impact of the downturn and the ongoing efforts of the customer base to replace our strip products with lower cost non-beryllium alloys, it is not certain if or when demand levels will return to the pre-downturn levels. As a result, we have taken significant cost reduction actions and will continue to examine alternatives to realign or restructure this business. In the long-term, we anticipate that sales of bulk products will grow as a result of improved market conditions and our continued product application development and diversification efforts.

Beryllium and Beryllium Composites

(Millions)	Second Quarter Ended		First Half Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Sales	\$13.1	\$ 14.7	\$26.1	\$ 28.1
Operating profit	\$ 1.0	\$ 2.3	\$ 2.9	\$ 2.6

Beryllium and Beryllium Composites manufactures beryllium-based metals and metal matrix composites in rod, sheet, foil and a variety of customized forms at the Elmore, Ohio and Fremont, California facilities. These materials are used in applications that require high stiffness and/or low density and they tend to be premium priced due to their unique combination of properties. This segment also manufactures beryllia ceramics through our wholly owned subsidiary, Brush Ceramic Products Inc., in Tucson, Arizona. Defense and government-related applications, including aerospace, is the largest market for Beryllium and Beryllium Composites, while other markets served include medical, telecommunications and computer, electronics (including acoustics), optical scanning and general industrial products.

Sales by Beryllium and Beryllium Composites were \$13.1 million in the second quarter 2009, an 11% decrease from sales of \$14.7 million in the second quarter 2008. Sales of \$26.1 million in the first half of 2009 were 7% lower than sales of \$28.1 million in the first half of 2008.

Sales from the Elmore facility, primarily for defense-related applications, grew in the second quarter and first half of 2009 over the comparable periods in 2008. The defense sector has performed well in 2009, except for the unexpected delay and then cancellation of the deployment of the U.S. missile defense program in Eastern Europe.

The growth in defense-related sales, however, was more than offset by the decline in sales in the other portions of this segment's business. Demand for beryllium products for commercial applications was soft, while the demand for x-ray window materials from the Fremont facility weakened considerably in the second quarter 2009 after a soft first quarter of the year. Sales of beryllia ceramics declined approximately 50% in the second quarter 2009 and 38% in the first half of 2009 primarily due to an excess inventory position at our largest customer for those materials. We do not anticipate sales of beryllia ceramics to improve from the second quarter level until late in the third quarter 2009.

The gross margin on Beryllium and Beryllium Composites' sales was \$3.4 million, or 26% of sales, in the second quarter 2009 compared to a gross margin of \$5.1 million, or 35% of sales, in the second quarter 2008. The gross margin was \$8.1 million, or 31% of sales, in the first six months of 2009 and \$8.4 million, or 30% of sales, in the first six months of 2008.

The majority of the difference in gross margins between the second quarter and first six months of 2009 with the respective periods in the prior year was due to differences in the sales volume. The change in the product mix was unfavorable in the second quarter but favorable for the first six months of the year. Manufacturing improvements at the Elmore facility, including higher yields, greater efficiencies and scrap utilization, primarily in the first quarter 2009, provided a benefit to gross margin in the first six months of 2009 and helped to offset the manufacturing inefficiencies due to the lower production volumes at the other facilities.

SG&A, R&D and other-net expenses for Beryllium and Beryllium Composites totaled \$2.4 million, or 18% of sales, in the second quarter 2009 and \$2.8 million, or 19% of sales, in the second quarter 2008. These expenses totaled \$5.2 million, or 20% of sales, in the first six months of 2009 and \$5.8 million, or 21% of sales, in the first six months of 2008. While this segment's sales and margins have not been as affected by the global economic crisis as

the other segments, various measures were implemented to maintain and/or reduce expense levels in light of the consolidated operating loss.

Operating profit for Beryllium and Beryllium Composites was \$1.0 million in the second quarter 2009 compared to \$2.3 million in the second quarter 2008. For the first half of the year, operating profit improved from \$2.6 million in 2008 to \$2.9 million in 2009. Operating profit was 11% of sales in the first half of 2009 and 9% of sales in the first half of 2008.

Engineered Material Systems

(Millions)	Second Quarter Ended		First Half Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Sales	\$ 7.5	\$ 19.6	\$12.9	\$ 37.3
Operating profit (loss)	\$(0.8)	\$ 2.0	\$(3.5)	\$ 3.4

Engineered Material Systems includes clad inlay and overlay metals, precious and base metal electroplated systems, electron beam welded systems, contour profiled systems and solder-coated metal systems. These specialty strip metal products provide a variety of thermal, electrical or mechanical properties from a surface area or particular section of the material. Our cladding and plating capabilities allow for a precious metal or brazing alloy to be applied to a base metal only where it is needed, reducing the material cost to the customer as well as providing design flexibility. Major applications for these products include connectors, contacts and semiconductors. The largest markets for Engineered Material Systems are automotive electronics, telecommunications and computer electronics and data storage, while the energy and defense and medical electronic markets offer further growth opportunities. Engineered Material Systems are manufactured at our Lincoln, Rhode Island facility.

Sales from Engineered Material Systems of \$7.5 million in the second quarter 2009 were 62% lower than sales of \$19.6 million in the second quarter 2008, while sales for the first half of 2009 of \$12.9 million were 65% lower than sales of \$37.3 million in the first half of 2008.

The decline in sales in the second quarter and first half of 2009 was across all of this segment's key markets and in each of its major product families. The lower consumer spending for electronics, automobiles and other items coupled with an excess inventory position downstream in the supply chain resulted in lower demand for products from Engineered Material Systems.

While sales are behind last year's pace, sales in the second quarter 2009 did improve 39% over sales in the first quarter 2009. Sales of disk drive arm materials, which were immaterial in the first quarter 2009 after being one of the segment's largest applications in 2008, were largely responsible for the growth in the second quarter over the first quarter 2009.

The order entry rate also improved during the early portions of the second quarter. However, after a spike in demand, partially due to portions of the supply chain rebuilding inventory levels, order rates softened late in the second quarter and early third quarter as customers remain cautious about their level of business.

The gross margin on Engineered Material Systems' sales was \$0.5 million, or 7% of sales, in the second quarter 2009 and a negative \$0.6 million in the first half of 2009. In 2008, the gross margin was \$4.0 million, or 21% of sales, in the second quarter and \$7.4 million, or 20% of sales, in the first six months of the year.

The decline in margins in both the second quarter and first half of 2009 was due to the lower sales volume. Actions were taken to lower costs, including manpower reductions, shortened work hours, cancellation of programs and services, vendor push-backs and other items. However, the impact of these items was not enough to offset the lost margins due to the steep drop in volumes. The change in product mix was unfavorable in the first six months of 2009 as compared to the first six months of 2008 as well.

Total SG&A, R&D and other-net expenses of \$1.4 million in the second quarter 2009 were \$0.7 million lower than the second quarter 2008 while the expense total of \$2.8 million in the first half of 2009 was \$1.2 million lower than the first half of 2008 as expenses were reduced in light of the lower sales volumes. Lower incentive compensation accounted for \$0.3 million of the reduced expense in the second quarter 2009 and \$0.5 million of the

reduced expense in the first half of 2009. Manpower costs, travel, dues, advertising and other costs were also reduced in the second quarter and first half of 2009.

The operating loss from Engineered Material Systems was \$0.8 million in the second quarter 2009 and \$3.5 million in the first half of 2009. In 2008, Engineered Material Systems generated an operating profit of \$2.0 million in the second quarter and \$3.4 million in the first half of the year. The operating loss in the first half of 2009 includes \$0.3 million of one-time severance costs recorded in the first quarter 2009. The operating results improved each month during the second quarter 2009 due to higher sales and the realization of the cost savings from the actions taken to date.

Legal

One of our subsidiaries, Brush Wellman Inc., is a defendant in proceedings in various state and federal courts brought by plaintiffs alleging that they have contracted chronic beryllium disease or other lung conditions as a result of exposure to beryllium. Plaintiffs in beryllium cases seek recovery under negligence and various other legal theories and seek compensatory and punitive damages, in many cases of an unspecified sum. Spouses, if any, claim loss of consortium.

The following table summarizes the associated activity with beryllium cases.

	Quarter Ended	
	July 3, 2009	Apr. 3, 2009
Total cases pending	8	9
Total plaintiffs	29	37
Number of claims (plaintiffs) filed during period ended	0(0)	0(2)
Number of claims (plaintiffs) settled during period ended	0(0)	0(0)
Aggregate cost of settlements during period ended (dollars in thousands)	\$ 0	\$ 0
Number of claims (plaintiffs) otherwise dismissed	1(8)	0(1)

Settlement payment and dismissal for a single case may not occur in the same period.

Additional beryllium claims may arise. Management believes that we have substantial defenses in these cases and intends to contest the suits vigorously. Employee cases, in which plaintiffs have a high burden of proof, have historically involved relatively small losses to us. Third-party plaintiffs (typically employees of customers or contractors) face a lower burden of proof than do employees or former employees, but these cases are generally covered by varying levels of insurance.

Although it is not possible to predict the outcome of the litigation pending against our subsidiaries and us, we provide for costs related to these matters when a loss is probable and the amount is reasonably estimable. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably in amounts exceeding our reserves. An unfavorable outcome or settlement of a pending beryllium case or additional adverse media coverage could encourage the commencement of additional similar litigation. We are unable to estimate our potential exposure to unasserted claims.

Based upon currently known facts and assuming collectibility of insurance, we do not believe that resolution of the current and future beryllium proceedings will have a material adverse effect on our financial condition or cash flow. However, our results of operations could be materially affected by unfavorable results in one or more of these cases. As of July 3, 2009, two purported class actions were pending.

The balances recorded on the Consolidated Balance Sheets associated with beryllium litigation were as follows:

<i>(Millions)</i>	July 3, 2009	December 31, 2008
<i>Asset (liability)</i>		
Reserve for litigation	\$ (1.9)	\$ (2.0)
Insurance recoverable	1.6	1.7

Regulatory Matters. Standards for exposure to beryllium are under review by the United States Occupational Safety and Health Administration and by other governmental and private standard-setting organizations. One result of these reviews will likely be more stringent worker safety standards. Some organizations, such as the California Occupational Health and Safety Administration and the American Conference of Governmental Industrial Hygienists, have adopted standards that are more stringent than the current standards of OSHA. The development, proposal or adoption of more stringent standards may affect the buying decisions by the users of beryllium-containing products. If the standards are made more stringent and/or our customers or other downstream users decide to reduce their use of beryllium-containing products, our operating results, liquidity and financial condition could be materially adversely affected. The impact of this potential adverse effect would depend on the nature and extent of the changes to the standards, the cost and ability to meet the new standards, the extent of any reduction in customer use and other factors. The magnitude of this potential adverse effect cannot be estimated.

Financial Position

Net cash from operating activities was \$11.7 million in the first half of 2009 as the effects of depreciation and a net reduction in working capital items more than offset the net loss. Net cash from operations in the second quarter 2009 alone was \$25.8 million, a significant improvement over the first quarter of 2009 when cash used in operations totaled \$14.1 million.

Cash balances stood at \$21.0 million as of the end of the second quarter 2009, an increase of \$2.5 million from year-end 2008 as the cash flow from operations was more than sufficient to fund capital expenditures and a reduction of debt.

Accounts receivable totaled \$74.1 million as of the end of the second quarter 2009, a decrease of \$13.8 million, or 16%, from December 31, 2008. The decline in receivables is due to sales in the second quarter 2009 being lower than sales in the fourth quarter 2008 and a reduction in the average collection period.

We continued to aggressively monitor and manage our credit exposures in light of the current economic climate. The bad debt expense for the first half of 2009 was immaterial. While there were no significant accounts written off during the first half of 2009, the depth and breadth of the current economic crisis has resulted in the rapid deterioration in the financial condition of numerous companies.

Other receivables totaling \$4.6 million as of the end of the second quarter primarily represented amounts outstanding for reimbursement of equipment purchased under a government contract. Outstanding receivables as of December 31, 2008 from the government under this contract totaled \$2.0 million. The \$3.4 million balance as of December 31, 2008 also included \$1.4 million due from escrow as a result of the finalization of the purchase price for the Techni-Met acquisition that was collected in full during the first quarter 2009.

Inventories of \$132.9 million as of July 3, 2009 were \$23.8 million, or 15%, lower than the balance as of December 31, 2008. Due to the continued inventory reductions and the improved sales in the second quarter as compared to the first quarter, the inventory turnover ratio, a measure of how quickly inventory is sold on average, was essentially unchanged as of the end of the second quarter from the year-end 2008 level.

The majority of the decline in inventory levels was in Specialty Engineered Alloys. In addition to a 17% reduction in pounds during the first half of 2009 due to the lower level of business, the value declined from a shift in the inventory make-up as the quantity of the higher valued finished goods inventory decreased by more than the lower valued feedstocks and work-in-process.

Inventories at Engineered Material Systems declined approximately 19% in response to the lower level of business. Inventories at Advanced Material Technologies and Services were slightly lower at the end of the second quarter 2009 than year-end 2008. Inventories within Beryllium and Beryllium Composites increased due to their business levels and other factors.

We use the last in, first out (LIFO) method for valuing a large portion of our domestic inventories. By so doing, the most recent cost of various raw materials, including gold, copper and nickel, is charged to cost of sales in the current period. The older, and often times lower, costs are used to value the inventory on hand. Therefore, current

changes in the cost of raw materials subject to the LIFO valuation method have only a minimal impact on changes in the inventory carrying value.

Prepaid expenses totaled \$26.4 million as of the end of the second quarter 2009, an increase of \$2.7 million from year-end 2008. The change in the balance was partially due to recording an income tax benefit as a result of the operating loss in the first half of 2009. The balances for other miscellaneous prepaids, including insurance and manufacturing supplies, changed due to the timing of payments.

Other assets were \$32.2 million at the end of the second quarter 2009 and \$34.4 million at the end of 2008. This \$2.2 million reduction was largely due to the amortization of intangible assets, including deferred financing costs.

Capital expenditures for property, plant and equipment and mine development totaled \$16.4 million in the first half of 2009.

Capital spending in the first half of 2009 included \$11.1 million for the design and development of the new facility for the production of primary beryllium under a Title III contract with the U.S. Department of Defense (DoD). The total cost of the project is estimated to be approximately \$90.4 million; we will contribute land, buildings, research and development, technology and ongoing operations valued at approximately \$23.3 million to the project. The DoD will reimburse us for the balance of the project cost. Reimbursements from the DoD are recorded as unearned income and included in other long-term liabilities on the Consolidated Balance Sheets. We anticipate the facility will be completed in the fourth quarter 2010.

The remaining \$5.3 million of spending in the first half of 2009 was on small, isolated projects across the organization. Spending by Advanced Material Technologies and Services was \$2.1 million and included spending on a micro-slitter and clean room at Techni-Met. Spending by Specialty Engineered Alloys was \$1.0 million. The balance of the spending was divided among the other two reportable segments and the corporate office, which included spending on computer software implementations.

The spending rate, exclusive of the amounts reimbursed by the government, was lower than the first half of 2008 and the total depreciation and amortization level for the first half of 2009 as we reduced the spending rate due to the operating losses being generated. Capital expenditures are generally limited to high priority and/or maintenance capital levels only.

Other liabilities and accrued items were \$30.7 million at the end of the second quarter 2009 and \$45.1 million at the end of 2008. The majority of this decline was due to the payment of the 2008 incentive compensation during the first quarter 2009. The liability for the fair value of outstanding derivative contracts also declined during the first half of 2009 due to changes in the market exchange rates relative to the contract rates. Other accruals, including accruals for utilities and fringe benefits, declined by more minor amounts as well.

Unearned revenue, which is a liability representing products invoiced to customers but not shipped, was \$2.1 million as of July 3, 2009 versus \$0.1 million as of December 31, 2008. Revenue and the associated margin will be recognized for these transactions when the goods ship, title passes and all other revenue recognition criteria are met. Invoicing in advance of the shipment, which is only done in certain circumstances, allows us to collect cash sooner than we would otherwise.

Other long-term liabilities were \$29.7 million as of the end of the second quarter 2009 compared to \$19.4 million as of year-end 2008. This increase was primarily due to payments received from the government under the contract for the design of the new beryllium production facility in 2009. These payments are classified as a long-term unearned income liability. The liability will be relieved to income over the life of the facility once it is built and placed into service.

The **retirement and post-employment benefit** balance totaled \$81.4 million at the end of the second quarter 2009, a decline of \$15.8 million from the balance at December 31, 2008. This balance represents the liability under our domestic defined benefit pension plan, the retiree medical plan and other retirement plans and post-employment obligations.

The main cause for the decline was contributions totaling \$14.0 million to the domestic pension plan during the first half of 2009; we anticipate making additional contributions totaling an estimated \$3.8 million in the second half of the year. The pension liability was also affected by the curtailment and the associated remeasurement, other comprehensive income adjustments and the quarterly expense. The movement in the liability due to the expense on the retiree medical plan and the other retirement plans was generally offset by the cash paid.

Debt totaled \$38.4 million at the end of the second quarter 2009, a decrease of \$3.4 million from the total debt of \$41.8 million at the end of 2008. Debt had increased \$10.9 million in the first quarter 2009 as a result of the \$12.1 million pension plan contribution and the net loss offset in part by changes in working capital and other factors in that period. Debt then declined \$14.3 million in the second quarter 2009 as a result of the strong cash flow from operating activities and limited capital expenditures during the quarter.

Short-term debt, which included foreign currency denominated loans and a gold-denominated loan, was \$26.9 million as of the end of the second quarter 2009. The current portion of long-term debt was \$0.6 million, while long-term debt was \$10.9 million. We were in compliance with all of our debt covenants as of the end of the second quarter 2009.

Shareholders' equity of \$341.3 million at the end of the second quarter 2009 was \$5.8 million lower than the balance of \$347.1 million as of year-end 2008. The decline was primarily due to the comprehensive loss of \$7.6 million (see Note E to the Consolidated Financial Statements). Equity was also affected by stock compensation expense, the exercise of options and other factors.

Prior Year Financial Position

Net cash from operating activities was \$6.2 million in the first half of 2008 as net income and the benefits of depreciation and amortization more than offset the net increase in working capital, including increases in trade receivables and inventory. Receivables grew \$22.7 million due to higher sales in the second quarter 2008 than the fourth quarter 2007, a slower collection period and the acquisition of Techni-Met. The other receivable of \$11.3 million as of December 31, 2007 representing the amount due under a legal settlement with our former insurers was collected in full in the first quarter 2008. Inventories increased \$15.9 million, or 10%, in the first half of 2008 due to a slower inventory turnover, increased mining activity in Utah and the Techni-Met acquisition and in support of the higher level of anticipated business within the Advanced Material Technologies and Services segment. Other liabilities and accrued items declined \$11.3 million in the first half of 2008 largely as a result of the payment of the 2007 incentive compensation to employees. Capital expenditures were \$14.8 million in the first half of 2008, which was below the level of depreciation and amortization.

We used a combination of cash and additional borrowings to fund the \$86.5 million acquisition of Techni-Met. In addition, immediately after the acquisition, we sold its precious metal inventory for its fair value of \$22.9 million and consigned it back under existing lines. Outstanding debt totaled \$87.1 million at the end of the first half of 2008, an increase of \$51.6 million from year-end 2007. The cash balance stood at \$15.2 million, a decline of \$16.6 million from December 31, 2007.

Off-Balance Sheet Arrangements and Contractual Obligations

We maintain the majority of our precious metal inventories on a consignment basis in order to reduce our exposure to metal price movements and to reduce our working capital investment. The balance outstanding under the off-balance sheet precious metal consigned inventory arrangements totaled \$85.5 million at the end of the second quarter 2009, a decrease of \$18.7 million from year-end 2008 as the quantities on hand decreased in response to the lower business levels.

The quantity impact on the balance outstanding was offset in part by the metal price impact as prices increased in the first half of 2009 over the year-end 2008 prices.

There have been no substantive changes in the summary of contractual obligations under long-term debt agreements, operating leases and material purchase commitments as of July 3, 2009 from the year-end 2008 totals as disclosed on page 40 of our Annual Report on Form 10-K for the year ended December 31, 2008.

Liquidity

We believe funds from operations plus the available borrowing capacity and the current cash balance are adequate to support operating requirements, capital expenditures, projected pension plan contributions, strategic acquisitions and environmental remediation projects. The total debt-to-debt-plus-equity ratio, a measure of balance sheet leverage, was 10% as of the end of the second quarter 2009 compared to 13% as of the end of the first quarter 2009. The ratio was also lower than any quarter-end since the fourth quarter 2007, which was prior to the acquisition of Techni-Met.

Despite the net loss in the first half of 2009, debt declined by \$3.4 million while cash increased \$2.5 million. The total debt balance of \$38.4 million was the lowest quarterly balance since year-end 2007 while the cash balance of \$21.0 million was the highest since year-end 2007 as well. There are no mandatory long-term debt repayments to be made in the second half of 2009.

We had approximately \$116.9 million of available borrowing capacity under the existing lines of credit as of July 3, 2009. A covenant in the revolving credit agreement limits the available borrowing capacity under that agreement based upon the latest twelve months of earnings, interest, taxes, depreciation, amortization and other factors. Depending upon the final operating results for the third quarter 2009, the available borrowing capacity under the revolving credit agreement as of the end of the third quarter 2009 may be significantly lower than it was as of the end of the second quarter 2009 as a result of this covenant, but we anticipate that the available capacity should still be in excess of the levels needed to fund current operations.

The available and unused capacity under the metal financing lines totaled approximately \$79.8 million as of July 3, 2009.

Critical Accounting Policies

Pensions. In accordance with accounting guidelines, we determined that we had a curtailment of the domestic defined benefit pension plan in the first quarter 2009 due to a significant reduction in employment. As a result, the pension plan liability was remeasured as of February 28, 2009 (the curtailment date) using revised participant data, updated asset values and other factors. The various assumptions used to value the plan, including the discount rate and the expected rate of return on plan assets, were reviewed to determine if any revisions were warranted. Based upon our review, the discount rate used to measure the plan liability as of February 28, 2009 and the expense for the year from that date forward, was increased to 6.80% from 6.15% as of December 31, 2008. The rate increase was due to changes in the market conditions as we used the same process used to develop the discount rate assumption as of February 28, 2009 as we did at year-end 2008. We determined that revisions to the expected rate of return on plan assets and other key assumptions were not warranted as of February 28, 2009.

As a result of the curtailment, the 2009 annual expense for the plan was reduced from \$5.3 million as estimated previously to \$4.3 million after the impact of the curtailment. In addition, we recorded a one-time curtailment gain in the first quarter 2009 of \$1.1 million due to the recognition of a portion of the previously unrecognized prior service cost benefit. Therefore, the net all-in expense for 2009 is projected to be \$3.2 million after the curtailment. The 2008 expense was \$4.8 million.

For additional information regarding critical accounting policies, please refer to pages 42 to 45 of our Annual Report on Form 10-K for the year ended December 31, 2008. Except as set forth above, there have been no material changes in our critical accounting policies since the inclusion of this discussion in our Annual Report on Form 10-K.

Market Risk Disclosures

For information regarding market risks, please refer to pages 45 to 47 of our Annual Report on Form 10-K for the year ended December 31, 2008. There have been no material changes in our market risks since the inclusion of this discussion in our Annual Report on Form 10-K.

Outlook

We believe that the majority of the fall-off in our sales in 2009 from the 2008 levels was due to the global economic crisis and not due to a loss of applications; we believe a portion of the improvement in sales in the second

quarter 2009 over the first quarter 2009 resulted from a reduction in the inventory overhang in the supply chain that was built-up prior to the beginning of the crisis. We also believe that as the general economy starts to recover, our sales, particularly into those markets directly driven by changes in consumer spending, will generally improve as well. The sales order entry rate improved during the second quarter 2009 over the first quarter 2009 level. While this is encouraging, given the breadth and depth of the economic crisis, it is too difficult to know whether these improvements are significant enough to signal that the crisis has indeed bottomed out.

Our sales into the defense and medical markets had remained firm during the early portions of the economic crisis. However, although medical sales softened during the second quarter 2009, we believe they will improve in the second half of 2009 over the second quarter level. Late in the second quarter 2009, we started to see delays and push outs of defense orders in portions of our business for the second half of 2009. On the positive side, there were not significant order cancellations and the 2010 outlook for defense orders remains solid.

In addition, we continued our new application development work, recognizing that, even in down markets, there are opportunities to expand our market share or develop new platforms to better position ourselves for when the economy improves.

We remain committed to the cost-saving initiatives that were implemented in the first half of 2009 as they had a significant favorable impact on our operating results. Resources will only be added back in a controlled manner and when justified by growth in volumes and/or profitability.

Forward-Looking Statements

Portions of the narrative set forth in this document that are not statements of historical or current facts are forward-looking statements. Our 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:

- The global economy, including the uncertainties related to the impact of the current global economic crisis;
- The condition of the markets in which we serve, whether defined geographically or by segment, with the major market segments being telecommunications and computer, data storage, aerospace and defense, automotive electronics, industrial components, appliance and medical;
- Changes in product mix and the financial condition of customers;
- Actual sales, operating rates and margins for the third quarter and the year 2009;
- The successful implementation of cost reduction initiatives;
- Our success in developing and introducing new products and new product ramp-up rates, especially for media applications in the data storage market;
- Our success in passing through the costs of raw materials to customers or otherwise mitigating fluctuating prices for those materials, including the impact of fluctuating prices on inventory values;
- Our success in integrating newly acquired businesses;
- Our success in implementing our strategic plans and the timely and successful completion of any capital projects;
- The availability of adequate lines of credit and the associated interest rates and/or fees;
- Other financial factors, including cost and availability of raw materials (both base and precious metals), metal financing fees, tax rates, exchange rates, pension costs and required cash contributions and other employee benefit costs, energy costs, regulatory compliance costs, the cost and availability of insurance and the impact of the Company's stock price on the cost of incentive plans;
- The uncertainties related to the impact of war and terrorist activities;

- Changes in government regulatory requirements and the enactment of new legislation that impacts our obligations and operations;
- The conclusion of pending litigation matters in accordance with our expectation that there will be no material adverse effects; and
- The risk factors set forth in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For information about our market risks, please refer to our annual report on Form 10-K to shareholders for the period ended December 31, 2008.

Item 4. Controls and Procedures

We carried out an evaluation under the supervision and with participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of July 3, 2009 pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the evaluation date.

In the second quarter 2009, the Company implemented SAP (an information technology system for accounting, sales and manufacturing) at one of its domestic facilities. SAP was implemented in part to improve internal control over financial reporting at this facility. This change in systems was subject to thorough testing and review by internal and external parties both before and after final implementation. SAP had previously been implemented at a significant number of the Company's other facilities. The Company continually strives to improve its internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Except as set forth above, there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended, that occurred during the quarter ended July 3, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Our subsidiaries and our holding company are subject, from time to time, to a variety of civil and administrative proceedings arising out of our normal operations, including, without limitation, product liability claims, health, safety and environmental claims and employment-related actions. Among such proceedings are the cases described below.

Beryllium Claims

As of July 3, 2009, our subsidiary, Brush Wellman Inc., was a defendant in eight proceedings in various state and federal courts brought by plaintiffs alleging that they have contracted, or have been placed at risk of contracting, chronic beryllium disease or other lung conditions as a result of exposure to beryllium. Plaintiffs in beryllium cases seek recovery under negligence and various other legal theories and seek compensatory and punitive damages, in many cases of an unspecified sum. Spouses of some plaintiffs claim loss of consortium.

During the second quarter of 2009, the number of beryllium cases decreased from nine (involving 37 plaintiffs) as of April 3, 2009 to eight cases (involving 29 plaintiffs) as of July 3, 2009. In one case, in which the trial court granted summary judgment in favor of the Company on October 30, 2007, and which was affirmed on appeal on January 13, 2009, the time for filing a writ of certiorari with the U.S. Supreme Court has passed, and the case is finally resolved and dismissed. No cases were filed or settled during the quarter.

The eight pending beryllium cases as of July 3, 2009 fall into two categories: Six cases involving third-party individual plaintiffs, with 16 individuals (and one spouse who has filed a claim as part of his spouse's case and two children who have filed claims as part of their parent's case) and two purported class actions, involving ten named plaintiffs, as discussed more fully below. Claims brought by third-party plaintiffs (typically employees of our customers or contractors) are generally covered by varying levels of insurance.

The first purported class action is Manuel Marin, et al. v. Brush Wellman Inc., filed in Superior Court of California, Los Angeles County, case number BC299055, on July 15, 2003. The named plaintiffs are Manuel Marin, Lisa Marin, Garfield Perry and Susan Perry. The defendants are Brush Wellman, Appanaitis Enterprises, Inc., and Doe Defendants 1 through 100. A First Amended Complaint was filed on September 15, 2004, naming five additional plaintiffs. The five additional named plaintiffs are Robert Thomas, Darnell White, Leonard Joffrion, James Jones and John Kesselring. The plaintiffs allege that they have been sensitized to beryllium while employed at the Boeing Company. The plaintiffs' wives claim loss of consortium. The plaintiffs purport to represent two classes of approximately 250 members each, one consisting of workers who worked at Boeing or its predecessors and are beryllium sensitized and the other consisting of their spouses. They have brought claims for negligence, strict liability — design defect, strict liability — failure to warn, fraudulent concealment, breach of implied warranties, and unfair business practices. The plaintiffs seek injunctive relief, medical monitoring, medical and health care provider reimbursement, attorneys' fees and costs, revocation of business license, and compensatory and punitive damages. Messrs. Marin, Perry, Thomas, White, Joffrion, Jones and Kesselring represent current and past employees of Boeing in California; and Ms. Marin and Ms. Perry are spouses. Defendant Appanaitis Enterprises, Inc. was dismissed on May 5, 2005. Plaintiffs' motion for class certification, which the Company opposed, was heard by the court on February 8, 2008, and the motion was denied by the court on May 7, 2008. Plaintiffs filed a notice of appeal on May 20, 2008.

The second purported class action is Gary Anthony v. Small Tube Manufacturing Corporation d/b/a Small Tube Products Corporation, Inc., et al., filed in the Court of Common Pleas of Philadelphia County, Pennsylvania, case number 000525, on September 7, 2006. The case was removed to the U.S. District Court for the Eastern District of Pennsylvania, case number 06-CV-4419, on October 4, 2006. The only named plaintiff is Gary Anthony. The defendants are Small Tube Manufacturing Corporation, d/b/a Small Tube Products Corporation, Inc.; Admiral Metals Inc.; Tube Methods, Inc.; and Cabot Corporation. The plaintiff purports to sue on behalf of a class of current and former employees of the U.S. Gauge facility in Sellersville, Pennsylvania who have ever been exposed to beryllium for a period of at least one month while employed at U.S. Gauge. The plaintiff has brought claims for negligence. Plaintiff seeks the establishment of a medical monitoring trust fund, cost of publication of approved

guidelines and procedures for medical screening and monitoring of the class, attorneys' fees and expenses. Defendant Tube Methods, Inc. filed a third-party complaint against Brush Wellman Inc. in that action on November 15, 2006. Tube Methods alleges that Brush supplied beryllium-containing products to U.S. Gauge, and that Tube Methods worked on those products, but that Brush is liable to Tube Methods for indemnification and contribution. Brush moved to dismiss the Tube Methods complaint on December 22, 2006. On January 12, 2007, Tube Methods filed an amended third-party complaint, which Brush moved to dismiss on January 26, 2007; however, the Court denied the motion on September 28, 2007. Brush filed its answer to the amended third-party complaint on October 19, 2007. On November 14, 2007, two of the defendants filed a joint motion for an order permitting discovery to make the threshold determination of whether plaintiff is sensitized to beryllium. On February 29, 2008, Brush filed a motion for summary judgment based on plaintiff's lack of any substantially increased risk of CBD. Oral argument on this motion took place on June 13, 2008. On September 30, 2008, the court granted the motion for summary judgment in favor of all of the defendants and dismissed plaintiff's class action complaint. On October 29, 2008, plaintiff filed a notice of appeal. The Court of Appeals has granted a motion to stay the appeal due to the bankruptcy of one of the appellees, Millennium Petrochemicals. On April 3, 2009, Small Tube Manufacturing filed a motion for relief in bankruptcy court from the automatic stay, asking that the bankruptcy court modify the stay to allow Small Tube Manufacturing's indemnification claim against Millennium Petrochemicals and the Anthony case to proceed to final judgment, including all appeals. On May 14, 2009, the bankruptcy court approved a stipulation and order modifying the automatic stay to permit Millennium Petrochemicals and Small Tube Manufacturing to participate in the appeal. On May 27, 2009, Small Tube Manufacturing filed an unopposed motion with the Court of Appeals to lift the stay, which the court granted on June 22, 2009.

Other Claims

One of our subsidiaries, Williams Advanced Materials Inc. (WAM), is a party to patent litigation in the U.S. involving Target Technology Company, LLC of Irvine, California (Target). The litigation involves patents directed to technology used in the production of DVD-9s, which are high storage capacity DVDs, and other optical recording media. The patents at issue primarily concern certain silver alloys used to make the semi-reflective layer in DVD-9s, a thin metal film that is applied to a DVD-9 through a process known as sputtering. The raw material used in the sputtering process is called a target. Target alleges that WAM manufactures and sells infringing sputtering targets to DVD manufacturers.

In the first action, filed in April 2003 by WAM against Target in the U.S. District Court, Western District of New York (case no. 03-CV-0276A (SR)) (the NY Action), WAM had asked the Court for a judgment declaring certain Target patents invalid and/or unenforceable and awarding WAM damages. Target counterclaimed alleging infringement of those patents and seeking a judgment for infringement, an injunction against further infringement and damages for past infringement. Following certain proceedings in which WAM was denied an injunction to prevent Target from suing and threatening to sue WAM's customers, Target filed an amended counterclaim and a third-party complaint naming certain of WAM's customers and other entities as parties to the case and adding related other patents to the NY Action. The action temporarily was stayed pending resolution of the ownership issue in the CA Action (defined below), as discussed more fully below. On January 26, 2009, the Court in the CA Action ordered that the case and remaining issues be transferred to the Court in the NY Action. As a result, the stay in the NY Action has been lifted, and the Court in the NY Action has consolidated the CA Action with the NY Action. With the parties having resumed pre-trial proceedings, Target had moved the Court to further amend its counts for infringement to include only certain claims of six of the patents claimed to be owned by Target. If granted, Target's counts for infringement of other claims in those patents and six other patents claimed to be owned by Target would be removed from the NY Action. WAM had opposed the motion to the extent Target seeks dismissal without prejudice of the counts for infringement of the other claims and other patents. Following a Court hearing on Target's motion to amend its pleadings and upon agreement of the parties, Target further amended its counts for infringement to include a total of nine U.S. patents and withdrawing four other patents. In response to Target's amendment of its pleadings, WAM moved for (a) dismissal of Target's counts for lack of jurisdiction on the basis that Target did not own the patents, (b) terminating sanctions on the basis of litigation misconduct by Target, and (c) a stay of discovery pending a decision by the Court on the first two WAM motions, all of which motions are pending. WAM continues to dispute Target's claims of ownership of all of the patents and denies both validity and infringement of the patent claims. A trial currently is expected to be held in 2010.

Target in September 2004 filed in the U.S. District Court, Central District of California (case no. SAC04-1083 DOC (MLGx)), a separate action for infringement of one of the same patents named in the NY Action (the CA Action), naming as defendants WAM and certain of WAM's customers who purchase certain WAM sputtering targets. Target sought a judgment that the patent is valid and infringed by the defendants, a permanent injunction, a judgment on ownership of certain Target patents, damages adequate to compensate Target for the infringement, treble damages and attorneys' fees and costs. In April 2007, Sony DADC U.S., Inc. among other Sony companies (Sony) had intervened in the CA Action claiming ownership of that patent and others of the patents that Target is seeking to enforce in the NY Action. Sony's claim was based on its prior employment of the patentee and Target's founder, Han H. Nee (Nee), and had included a demand for damages against both Target and Nee. WAM on behalf of itself and its customers has a paid-up license from Sony under any rights that Sony has in those patents. Although trial of the CA Action had been scheduled for March 2009, in December 2008, a confidential settlement agreement was reached between Target and Sony, as well as a partial settlement agreement between Target and WAM releasing WAM and its customers from infringement of the one named patent. As a result, the issues not subject to any settlement were (1) a remaining count in which the Target parties had requested a judgment declaring that Target is the owner of certain of the Target patents and (2) WAM's request for sanctions against Target. Pursuant to various stipulations filed by the parties, the Court on January 6, 2009 ordered a dismissal with prejudice of all of the respective intervention claims and counterclaims between the Target parties and the Sony companies, and a dismissal without prejudice of the counterclaims by WAM and its defendant customers, the exception being the remaining declaratory judgment count on patent ownership. Following motions filed by the parties, the Court on January 26, 2009 ordered that the case and remaining issues be transferred to the Court in the NY Action.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended July 3, 2009, we purchased common shares for directors who elected to defer their annual director fees and are held in a rabbi trust established under our 2006 Non-employee Directors' Equity Plan as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
April 1 through 30, 2009	2,080	\$ 15.26	—	—

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Company's Annual Meeting of Shareholders for 2009 was held on May 6, 2009.

(b) The first matter was the election of Directors. Four directors were elected to serve for a term of three years by the following vote:

	<u>Shares Voted "For"</u>	<u>Shares Voted "Against"</u>	<u>Shares Voted "Abstaining"</u>	<u>Shares "Non- Voted"</u>
Richard J. Hipple	16,789,758	368,571	25,350	—
William B. Lawrence	16,744,144	410,301	29,235	—
William M. Madar	16,584,313	568,262	31,104	—
Craig S. Shular	16,968,336	184,739	30,604	—

The following directors continued their term of office after the meeting: Albert C. Bersticker, Joseph P. Keithley, Vinod M. Khilnani, William B. Lawrence, William Pryor, N. Mohan Reddy, William R. Robertson and John Sherwin, Jr.

(c) The second matter was a vote to approve the amendment to the Company's Code of Regulations to allow the Board of Directors to amend the Code of Regulations to the extent permitted by Ohio law. The tabulation of votes for the approval of the amendment, is as follows:

For	15,400,551
Against	1,650,404
Abstain	132,724
Broker Non-votes	0

(d) The third matter was a vote to ratify the appointment of Ernst & Young LLP as Brush Engineered Materials' auditors for the fiscal year ending December 31, 2009. The tabulation of votes for the appointment, which was ratified, is as follows:

For	16,723,707
Against	421,197
Abstain	38,776
Broker Non-votes	0

Item 5. Other Information

On August 5, 2009, the Compensation Committee of the Board of Directors approved the Second Amendment to the Brush Engineered Materials Inc. Amended and Restated Executive Deferred Compensation Plan II ("EDCP II"). This amendment reflects changes with the trusteeship of the related grantor trust and provides additional administrative provisions and protections in the event of a change of control of the Company.

Item 6. Exhibits

- 3 Amended and Restated Code of Regulations
- 10.1 Form of Trust Agreement between the Company and Fidelity Management Trust Company
- 10.2 Second Amendment to the Amended and Restated Executive Deferred Compensation Plan II
- 11 Statement regarding computation of per share earnings
- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or 15d-14(a)
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or 15d-14(a)
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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 ENGINEERED MATERIALS INC.

/s/ John D. Grampa

John D. Grampa
Senior Vice President Finance
and Chief Financial Officer

Dated: August 11, 2009

EXHIBIT INDEX

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**AMENDED AND RESTATED CODE OF REGULATIONS
OF
BRUSH ENGINEERED MATERIALS INC.
Shareholder Meetings**

1. Time And Place Of Meetings. All meetings of the shareholders for the election of directors or for any other purpose will be held at such time and place, within or without the State of Ohio, as may be designated by the Board of Directors or, in the absence of a designation by the Board of Directors, the Chairman of the Board of Directors, if any (the "Chairman"), the President, the Secretary or any other individual entitled to give notice pursuant to Regulation 4. The time of the meeting shall be stated in the notice of meeting. The Board of Director may postpone and reschedule any previously scheduled annual or special meeting of the shareholders.

2. Annual Meeting. An annual meeting of the shareholders will be held at such time and place as may be designated pursuant to Regulation 1, at which meeting the shareholders will elect directors to succeed those directors whose terms expire at such meeting and will transact such other business as may be brought properly before the meeting in accordance with Regulation 9. If the annual meeting is not held or if the number of directors elected thereat is not sufficient to replace the directors whose terms expire at that meeting and to fill all other vacancies, directors may be elected at a special meeting called for the purpose of electing directors.

3. Special Meetings. (a) Special meetings of shareholders may be called by the Chairman, by the President, by a Vice President, by a majority of the Board of Directors acting with or without a meeting or by any person or persons who hold not less than 50% of all the shares outstanding and entitled to be voted on any proposal to be submitted at the meeting to be called. Special meetings of the holders of shares that are entitled to call a special meeting by virtue of any Preferred Stock Designation may call such meetings in the manner and for the purposes provided in the applicable terms of such Preferred Stock Designation. For purposes of this Amended and Restated Code of Regulations, "Preferred Stock Designation" means the express terms of shares of any class or series of capital stock of the Corporation, whether now or hereafter issued, with rights to distributions senior to those of the Common Stock including, without limitation, any relative, participating, optional or other special rights and privileges of, and any qualifications or restrictions on, such shares.

(b) Upon written request by any person or persons entitled to call a meeting of shareholders delivered in person or by registered mail to the President or the Secretary, such officer shall forthwith cause notice of the meeting to be given to the shareholders entitled to notice of such meeting in accordance with Regulation 4. If such notice shall not be given within 60 days after the delivery or mailing of such request, the person or persons requesting the meeting may fix the time of the meeting and give, or cause to be given, notice in the manner provided in Regulation 4.

4. Notice Of Meetings. Written notice of every meeting of the shareholders called in accordance with these Regulations (including any postponed and rescheduled meeting), stating the time, place and purposes for which the meeting is called, will be given by or at the direction of the President, a Vice President, the Secretary or an Assistant Secretary (or in case of their refusal to give notice by the person or persons entitled to call the meeting under Regulation 3). Such notice will be given by personal delivery, by mail or by electronic medium not fewer than 7 nor more than 60 calendar days before the date of the meeting to each shareholder of record entitled to notice of such meeting. If such notice is mailed, it shall be addressed to the shareholders at their respective addresses as they appear on the records of the Corporation, and notice shall be deemed to have been given on the day so mailed. Notice of adjournment of a meeting need not be given if the time and place to which it is adjourned are fixed and announced at such meeting.

5. Inspectors. Inspectors of election may be appointed to act at any meeting of shareholders in accordance with Ohio law.

6. Shareholder Lists. At any meeting of shareholders, an alphabetically arranged list, or classified lists, of the shareholders of record as of the applicable record date who are entitled to vote, showing their respective addresses and the number and classes of shares held by each, shall be produced on the request of any shareholder.

7. Quorum. To constitute a quorum at any meeting of shareholders, there shall be present, in person or by proxy, shareholders of record entitled to exercise not less than a majority of the voting power of the Corporation in respect of any one of the purposes for which the meeting is called, unless a greater or lesser number is expressly provided for with respect to a particular class or series of capital stock by the terms of any applicable Preferred Stock Designation. Except as may be otherwise provided in any Preferred Stock Designation, the holders of a majority of the voting power of the Corporation represented in person or by proxy at a meeting of shareholders, whether or not a quorum be present, may adjourn the meeting from time to time. For purposes of this Amended and Restated Code of Regulations, "voting power of the Corporation" means the aggregate voting power of (a) all the outstanding shares of Common Stock of the Corporation and (b) all the outstanding shares of any class or series of capital stock of the Corporation that has (i) rights to distributions senior to those of the Common Stock including, without limitation, any relative, participating, optional or other special rights and privileges of, and any qualifications or restrictions on, such shares and (ii) voting rights entitling such shares to vote generally in the election of directors.

8. Voting. Except as otherwise expressly required by law, the Amended and Restated Articles of Incorporation or this Amended and Restated Code of Regulations, at any meeting of shareholders at which a quorum is present, a majority of the votes cast, whether in person or by proxy, on any matter properly brought before such meeting in accordance with Regulation 9 will be the act of the shareholders. An abstention shall not represent a vote cast. A shareholder may revoke any proxy that is not irrevocable by attending the meeting and voting in person or by filing with the Secretary written notice of revocation or a later appointment. The vote upon any question brought before a meeting of the shareholders may be by voice vote, unless otherwise required by law, the Amended and Restated Articles of Incorporation or this Amended and Restated Code of Regulations or unless the presiding officer otherwise determines. Every vote taken by written ballot will be counted by the inspectors of election, if inspectors of election are appointed.

9. Order Of Business. (a) The Chairman, or such other officer of the Corporation as is designated by a majority of the total number of directors that the Corporation would have if there were no vacancies on the Board of Directors (such number being referred to as the "Whole Board"), will call meetings of shareholders to order and will act as presiding officer thereof. Unless otherwise determined by the Board of Directors prior to the meeting, the presiding officer of the meeting of shareholders will also determine the order of business and have the authority in his or her sole discretion to regulate the conduct of any such meeting, including, without limitation, (i) by imposing restrictions on the persons (other than shareholders of the Corporation or their duly appointed proxies) who may attend any such shareholders' meeting, (ii) by ascertaining whether any shareholder or his proxy may be excluded from any meeting of shareholders based upon the presiding officer's determination that any such person has unduly disrupted or is likely to disrupt the proceedings of the meeting and (iii) by determining the circumstances in which and time at which any person may make a statement or ask questions at any meeting of shareholders.

(b) At an annual meeting of the shareholders, only such business will be conducted or considered as is properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the President, a Vice President, the Secretary or an Assistant Secretary in accordance with Regulation 4, (ii) otherwise properly brought before the meeting by the presiding officer or by or at the direction of a majority of the Whole Board or (iii) otherwise properly requested to be brought before the meeting by a shareholder of the Corporation in accordance with Regulation 9(c).

(c) For business to be properly requested by a shareholder to be brought before an annual meeting, the shareholder must (i) be a shareholder of the Corporation of record at the time of the giving of the notice for such annual meeting as provided for in this Amended and Restated Code of Regulations, (ii) be entitled to vote at such meeting and (iii) have given timely written notice of the request to the Secretary. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not fewer than 60 nor more than 90 calendar days prior to the annual meeting; provided, however, that in the event public announcement of the date of the annual meeting is not made at least 75 calendar days prior to the date of the annual meeting and the annual meeting is held on a date more than ten calendar days before or after the first anniversary of the date on which the prior year's annual meeting was held, notice by the shareholder, to be timely, must be so received not later than the close of business on the 10th calendar day following the day on which public announcement is first made of the date of the annual meeting. A shareholder's notice to the Secretary must set forth as to each matter the shareholder proposes to bring before the annual meeting (A) a description in reasonable detail of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (B) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business and of the beneficial owner, if other than the shareholder, on whose behalf the proposal is made, (C) the class and number of shares of the

Corporation that are owned beneficially and of record by the shareholder proposing such business and by the beneficial owner, if other than the shareholder, on whose behalf the proposal is made and (D) any material interest of the shareholder proposing such business and the beneficial owner, if other than the shareholder, on whose behalf the proposal is made in such business. Notwithstanding the foregoing provisions of this Amended and Restated Code of Regulations, a shareholder must also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Regulation 9 (c). For purposes of this Regulation 9(c) and Regulation 14, "public announcement" means disclosure in a press release reported by the Dow Jones News Service, Associated Press, or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or publicly filed by the Corporation with any national securities exchange or quotation service through which the Corporation's stock is listed or traded, or furnished by the Corporation to its shareholders. Nothing in this Regulation 9(c) will be deemed to affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended.

(d) At a special meeting of shareholders, only such business may be conducted or considered as is properly brought before the meeting. To be properly brought before a special meeting, business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the President, a Vice President, the Secretary or an Assistant Secretary (or in case of their failure to give any required notice, the other persons entitled to give notice) in accordance with Regulation 4 or (ii) otherwise brought before the meeting by the presiding officer or by or at the direction of a majority of the Whole Board.

(e) The determination of whether any business sought to be brought before any annual or special meeting of the shareholders is properly brought before such meeting in accordance with this Regulation 9 will be made by the presiding officer of such meeting. If the presiding officer determines that any business is not properly brought before such meeting, he or she will so declare to the meeting and any such business will not be conducted or considered.

10. Report To Shareholders. At the annual meeting, or at the meeting held in lieu thereof, the officers of the Corporation shall lay before the shareholders a financial statement as required by statute.

11. Action Without A Meeting. Any action that may be authorized or taken at a meeting of the shareholders may be authorized or taken without a meeting in a writing or writings signed by all of the shareholders who would be entitled to notice of a meeting for such purpose, which writing or writings shall be filed with or entered upon the records of the Corporation.

DIRECTORS

12. Function. Except where the law, the Amended and Restated Articles of Incorporation or this Amended and Restated Code of Regulations requires action to be authorized or taken by the shareholders, all of the authority of the Corporation shall be exercised by or under the direction of the Board of Directors.

13. Number, Terms And Election Of Directors. (a) The directors of the corporation, other than those who may be expressly elected by virtue of the terms of any Preferred Stock Designation, shall be classified with respect to the time for which they severally hold office into three classes. Except as may be otherwise provided in any Preferred Stock Designation, each class will consist of not less than three directors, unless and until the number of directors of any such class is changed in accordance with this Regulation 13. The number of directors of any class will be determined from time to time by (i) the affirmative vote of the holders of a majority of the voting power of the Corporation, voting together as a single class, or (ii) a vote of a majority of the Whole Board, provided that the number of directors of any class changed by a vote of a majority of the Whole Board shall not differ by more than one from the number of directors of such class as last fixed by the shareholders.

(b) The directors first appointed to Class I will hold office for a term expiring at the annual meeting of shareholders to be held in 2001; the directors first appointed to Class II will hold office for a term expiring at the annual meeting of shareholders to be held in 2002; and the directors first appointed to Class III will hold office for a term expiring at the annual meeting of shareholders to be held in 2003. The members of each class will hold office until their successors are elected. At each annual meeting beginning in 2001, directors will be elected for a term of three years from the date of their election and until the election of their successors.

(c) At each annual meeting of the shareholders of the Corporation, the successors to the directors whose terms expire at that meeting shall be elected by a plurality of all the votes cast at such meeting. Cumulative voting in the election of directors shall

be permitted as provided by statute. Election of directors of the Corporation need not be by written ballot unless requested by the presiding officer or by the holders of a majority of the voting power of the Corporation present in person or represented by proxy at a meeting of the shareholders at which directors are to be elected. Directors may also be elected by a majority of the votes cast at a special meeting called for the purpose of electing directors or as may otherwise be provided by any Preferred Stock Designation.

14. Newly Created Directorships And Vacancies. Except as may be otherwise provided in any Preferred Stock Designation, any vacancy (including newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal, or other cause) may be filled by (i) the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, (ii) sole remaining director or (iii) the affirmative vote of the holders of a majority of the Voting Power of the Corporation, voting together as a single class, after a vote to increase the number of directors at a meeting called for that purpose in accordance with this Amended and Restated Code of Regulations. Any director elected in accordance with this Regulation 14, any Preferred Stock Designation or applicable statute will hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor has been elected.

15. Removal. Except as may otherwise be provided by any Preferred Stock Designation, all Directors, for whatever terms elected, shall hold office subject to applicable statutory provisions as to the creation of vacancies and removal. No decrease in the number of directors constituting the Board of Directors may shorten the term of any incumbent director.

16. Nominations Of Directors; Election. (a) Except as may be otherwise provided in any Preferred Stock Designation, only persons who are nominated in accordance with this Regulation 16 will be eligible for election at a meeting of shareholders to be members of the Board of Directors of the Corporation.

(b) Nominations of persons for election as directors of the Corporation may be made only at a meeting of shareholders (i) by or at the direction of the Board of Directors or a committee thereof or (ii) by any shareholder who is a shareholder of record at the time of giving of notice provided for in this Regulation 16, who is entitled to vote for the election of directors at such meeting, and who complies with the procedures set forth in this Regulation 16. All nominations by shareholders must be made to the Secretary in proper written form and must be timely.

(c) To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, in the case of a special meeting of the shareholders, at the time the meeting request is made in accordance with Regulation 3, or, in the case of an annual meeting, not fewer than 60 nor more than 90 calendar days prior to such annual meeting; provided, however, that in the event that public announcement of the date of the annual meeting is not made at least 75 calendar days prior to the date of the annual meeting and the annual meeting is held on a date more than one week before or after the first anniversary of the date on which the prior year's annual meeting, was held, notice by the shareholder to be timely must be so received not later than the close of business on the 10th calendar day following the day on which public announcement is first made of the date of the annual meeting.

(d) To be in proper written form, such shareholder's notice must set forth or include:

(i) the name and address, as they appear on the Corporation's books, of the shareholder giving the notice and of the beneficial owner, if any, on whose behalf the nomination is made;

(ii) a representation that the shareholder giving the notice is a holder of record of stock of the Corporation entitled to vote at such annual meeting and intends to appear in person or by proxy at the annual meeting to nominate the person or persons specified in the notice;

(iii) the class and number of shares of stock of the Corporation owned beneficially and of record by the shareholder giving the notice and by the beneficial owner, if any, on whose behalf the nomination is made;

(iv) a description of all arrangements or understandings between or among any of (A) the shareholder giving the notice, (B) the beneficial owner on whose behalf the notice is given, (C) each nominee and (D) any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder giving the notice;

(v) such other information regarding each nominee proposed by the shareholder giving the notice as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, by the Board of Directors; and

(vi) the signed consent of each nominee to serve as a director of the Corporation if so elected.

(e) The presiding officer of any annual meeting may, if the facts warrant, determine that a nomination was not made in accordance with this Regulation 16, and if he or she should so determine, he or she will so declare to the meeting, and the defective nomination will be disregarded. Notwithstanding the foregoing provisions of this Regulation 16, a shareholder must also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Regulation 16.

17. Resignation. Any director may resign at any time by giving written notice of his resignation to the Chairman or the Secretary. Any resignation will be effective upon actual receipt by any such person or, if later, as of the date and time specified in such written notice.

18. Regular Meetings. Regular meetings of the Board of Directors shall be held immediately after the annual meeting of the shareholders and at such other time and place either within or without the State of Ohio as may from time to time be determined by a majority of the Whole Board. Notice of regular meetings of the Board of Directors need not be given.

19. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman, by the President, by a Vice President, by the Secretary or by any two directors. Notice of special meetings, stating the place, date and hour, shall be given to each director by whom such notice is not waived. Notice must be given either personally or by mail, telephone, telegram, telex, facsimile or similar medium of communication not less than twenty- four hours before the designated hour for such meeting. Special meetings of the Board of Directors may be held at such time and place either within or without the State of Ohio as is determined by a majority of the Whole Board or specified in the notice of any such meeting.

20. Quorum And Vote. At all meetings of the Board of Directors, a majority of the total number of directors then in office will constitute a quorum for the transaction of business. Except as may be otherwise provided in any Preferred Stock Designation or by this Amended and Restated Code of Regulations, the act of a majority of the directors present at any meeting at which a quorum is present will be the act of the Board of Directors. If a quorum is not present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time to another time or place, without notice other than announcement at the meeting, until a quorum is present.

21. Action Without A Meeting. Any action that may be authorized or taken at a meeting of the Board of Directors may be authorized or taken without a meeting in a writing or writings signed by all the directors, which writing or writings shall be filed with or entered upon the records of the Corporation.

22. Participation In Meetings By Communications Equipment. Meetings of the Board of Directors or of any committee of the Board of Directors may be held through any means of communication equipment if all persons participating can hear each other, and such participation will constitute presence in person at such meeting,.

23. Committees. The Board of Directors may from time to time create an executive committee or any other committee or committees of directors to act in the intervals between meetings of the Board of Directors and may delegate to such committee or committees any of its authority other than that of filling vacancies among the Board of Directors or in any committee of the Board of Directors. Each committee shall consist of one or more directors. The Board of Directors may appoint one or more directors as alternate members of any such committee to take the place of absent committee members at meetings of such committee. Unless otherwise ordered by the Board of Directors, a majority of the members of any committee appointed by the Board of Directors pursuant to this Regulation 23 shall constitute a quorum at any meeting thereof, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of such committee. Action may be taken by any such committee without a meeting by a writing or writings signed by all of its members. Any such committee shall prescribe its own rules for calling and holding meetings and its method of procedure, subject to any rules prescribed by the Board of Directors, and will keep a written record of all action taken by it.

24. Compensation. The Board of Directors may establish the compensation and expense reimbursement policies for directors in exchange for service on the Board of Directors and on committees of the Board of Directors, for attendance at

meetings of the Board of Directors or committees of the Board of Directors, and for other services by directors to the Corporation or any of its subsidiaries.

25. Bylaws. The Board of Directors may adopt Bylaws for the conduct of its meetings and those of any committees of the Board of Directors that are not inconsistent with the Amended and Restated Articles of Incorporation or this Amended and Restated Code of Regulations.

OFFICERS

26. Generally. The Corporation may have a Chairman, elected by the directors from among their number, and shall have a President, who shall also be a director, a Secretary and a Treasurer. The Corporation may also have one or more Vice Presidents and such other officers and assistant officers as the Board of Directors may deem appropriate. If the Board of Directors so desires, it may elect a Chief Executive Officer to manage the affairs of the Corporation, subject to the direction and control of the Board of Directors. All of the officers shall be elected by the Board of Directors. Notwithstanding the foregoing, by specific action, the Board of Directors may authorize the Chairman or the President to appoint any person to any office other than Chairman, President, Secretary or Treasurer. Any number of offices may be held by the same person, and no two offices must be held by the same person. Any of the offices, other than the office of President, Secretary and Treasurer, may be left vacant from time to time as the Board of Directors may determine. In case of the absence or disability of any officer of the Corporation or for any other reason deemed sufficient by a majority of the Board of Directors, the Board of Directors may delegate the absent or disabled officer's powers or duties to any other officer or to any director.

27. Authority And Duties Of Officers. The officers of the Corporation shall have such authority and shall perform such duties as are customarily incident to their respective offices, or as may be specified from time to time by the Board of Directors, regardless of whether such authority and duties are customarily incident to such office.

28. Compensation. The compensation of all officers and agents of the Corporation who are also members of the Board of Directors of the Corporation will be fixed by the Board of Directors or by a committee of the Board of Directors. The Board of Directors may fix the compensation of the other officers and agents of the Corporation, or delegate the power to fix such compensation, to the Chief Executive Officer or any other officer of the Corporation.

29. Succession. The officers of the Corporation will hold office until their successors are elected pursuant to Regulation 26. Any officer may be removed at any time by the affirmative vote of a majority of the Whole Board. Any vacancy occurring in any office of the Corporation may be filled by the Board of Directors or by the Chairman or President as provided in Regulation 26.

STOCK

30. Transfer And Registration Of Certificates. The Board of Directors shall have authority to make such rules and regulations as it deems expedient concerning the issuance, transfer and registration of certificates for shares and the shares represented thereby and may appoint transfer agents and registrars thereof.

31. Substituted Certificates. Any person claiming a certificate for shares to have been lost, stolen or destroyed (i) shall make an affidavit or affirmation of that fact, (ii) shall give the Corporation and its registrar or registrars and its transfer agent or agents a bond of indemnity satisfactory to the Board of Directors or a committee thereof or to the President or a Vice President and the Secretary or the Treasurer and (iii) shall, if required by the Board of Directors or a committee thereof or the officers named in this Regulation 31, advertise the fact that the certificate has been lost, stolen or destroyed, whereupon a new certificate may be executed and delivered of the same tenor and for the same number of shares as the one alleged to have been lost, stolen or destroyed.

32. Voting Of Shares Held By The Corporation. Unless otherwise ordered by the Board of Directors, the President, in person or by proxy or proxies appointed by him, shall have full power and authority on behalf of the Corporation to vote, act and consent with respect to any shares issued by other corporations and owned by the Corporation.

33. Record Dates And Owners. (a) In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to designate an agent to act on behalf of the shareholders to call a special meeting of shareholders, or to take any other collective action on behalf of the shareholders, the Board of

Directors may fix a record date, which will not be fewer than 7 nor more than 60 calendar days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders will be the date next preceding the day on which notice is given, or, if notice is waived, the date next preceding the day on which the meeting is held.

(b) The Corporation will be entitled to treat the person in whose name shares are registered on the books of the Corporation as the absolute owner thereof, and will not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation has knowledge or notice of the claim or interest, except as expressly provided by applicable law.

INDEMNIFICATION AND INSURANCE

34. Indemnification.

(a) The Corporation shall indemnify, to the full extent then permitted by law, any director or officer or former director or officer of the Corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a member of the Board of Directors or an officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, trustee, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The Corporation shall pay, to the full extent then required by law, expenses, including attorney's fees, incurred by a member of the Board of Directors in defending any such action, suit or proceeding as they are incurred, in advance of the final disposition thereof.

(b) To the full extent then permitted by law, the Corporation may indemnify employees, agents and other persons and may pay expenses, including attorney's fees, incurred by any employee, agent or other person in defending any action, suit or proceeding as such expenses are incurred, in advance of the final disposition thereof.

(c) The indemnification and payment of expenses provided by this Regulation 34 shall not be exclusive of, and shall be in addition to, any other rights granted to any person seeking indemnification under any law, the Amended and Restated Articles of Incorporation, any agreement, vote of shareholders or disinterested members of the Board of Directors, or otherwise, both as to action in official capacities and as to action in another capacity while he or she is a member of the Board of Directors or an officer, employee or agent of the Corporation, and shall continue as to a person who has ceased to be a member of the Board of Directors, trustee, officer, employee or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

35. Insurance. The Corporation may, to the full extent then permitted by law and authorized by the Board of Directors, purchase and maintain insurance or furnish similar protection, including but not limited to trust funds, letters of credit or self-insurance, on behalf of or for any persons described in Regulation 34 against any liability asserted against and incurred by any such person in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify such person against such liability. Insurance may be purchased from or maintained with a person in which the Corporation has a financial interest.

36. Agreements. The Corporation, upon approval by the Board of Directors, may enter into agreements with any persons who the Corporation may indemnify under this Amended and Restated Code of Regulations or under law and may undertake thereby to indemnify such persons and to pay the expenses incurred by them in defending any action, suit or proceeding against them, whether or not the Corporation would have the power under law or this Amended and Restated Code of Regulations to indemnify any such person.

GENERAL

37. Fiscal Year. The fiscal year of the Corporation will end on the thirty-first day of December in each calendar year or such other date as may be fixed from time to time by the Board of Directors.

38. Seal. The seal of the Corporation shall be circular in form with the name of the Corporation stamped around the margin and the word "Seal" stamped across the center.

39. Amendments. Except as otherwise provided by law or by the Amended and Restated Articles of

Incorporation or this Amended and Restated Code of Regulations, these Regulations or any of them may be amended in any respect or repealed at any time, either (i) by the affirmative vote of the holders of a majority of the voting power of the Corporation, voting together as a single class, or (ii) to the extent as may be permitted by Chapter 1701 of the Ohio Revised Code in effect from time to time, by the Board of Directors.

TRUST AGREEMENT

Between

BRUSH ENGINEERED MATERIALS INC.

And

FIDELITY MANAGEMENT TRUST COMPANY

**BRUSH ENGINEERED MATERIALS INC. EXECUTIVE DEFERRED COMPENSATION PLAN II
TRUST**

Dated as of June 25, 2009

Confidential Information

Plan 20804

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Confidential Information

TRUST AGREEMENT, dated as of the twenty-fifth day of June, 2009 (“Effective Date”), between Brush Engineered Materials Inc., an Ohio corporation, having an office at 6070 Parkland Boulevard, Mayfield Heights, OH 44124 (the “Sponsor”), and **FIDELITY MANAGEMENT TRUST COMPANY**, a Massachusetts trust company, having an office at 82 Devonshire Street, Boston, Massachusetts 02109 (the “Trustee”).

WITNESSETH:

WHEREAS, the Sponsor is the sponsor of the Brush Engineered Materials Inc. Executive Deferred Compensation Plan II (the “Plan”); and

WHEREAS, each Employer has adopted the Plan and has incurred or expects to incur liability under the Plan with respect to its employees participating in the Plan; and

WHEREAS, the Sponsor wishes to establish an irrevocable trust (the “Trust”) with regard to the Plan and to have each Employer contribute to the Trust assets that shall be held therein subject to the claims of each Employer’s creditors in the event of such Employer’s Insolvency, as herein defined, until paid to such Employer’s Participants and their beneficiaries in such manner and at such times as specified in the Plan; and

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974 (“ERISA”); and

WHEREAS, it is the intention of each Employer to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Plan; and

WHEREAS, the Trustee is willing to hold and invest the aforesaid plan assets in trust among several investment options selected by the Sponsor; and

WHEREAS, the Sponsor also wishes to have the Trustee perform certain ministerial recordkeeping and administrative functions under the Plan; and

WHEREAS, the Trustee is willing to perform recordkeeping and administrative services for the Plan if the services are ministerial in nature and are provided within a framework of plan provisions, guidelines and interpretations conveyed in writing to the Trustee by the Administrator (as defined herein).

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements set forth below, the Sponsor and the Trustee agree as follows:

Section 1. Definitions.

The following terms as used in this Trust Agreement have the meaning indicated unless the context clearly requires otherwise:

(a) “Administrator”

“Administrator” shall mean the Plan Administrator identified in the Plan document.

(b) “Agreement”

“Agreement” shall mean this Trust Agreement, and the Schedules and/or Exhibits attached hereto, as the same may be amended and in effect from time to time.

(c) “Business Day”

“Business Day” shall mean each day the NYSE is open. The closing of a Business Day shall mean the NYSE’s normal closing time of 4:00 p.m.(ET), however, in the event the NYSE closes before such time or alters its closing time, all references to the NYSE closing time shall mean the actual or altered closing time of the NYSE.

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(d) “Code”

“Code” shall mean the Internal Revenue Code of 1986, as it has been or may be amended from time to time.

(e) “EDT”

“EDT” shall mean electronic data transfer.

(f) “Electronic Services”

“Electronic Services” shall mean communication and services made available via electronic media.

(g) “Employer”

“Employer” shall mean the Sponsor and any other corporation in a controlled group of corporations (under Code Section 414(b)) of which the Sponsor is a member which adopts the Plan for the benefit of its employees as provided in the Plan.

(h) “ERISA”

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as it has been or may be amended from time to time.

(i) “External Account Information”

“External Account Information” shall mean account information, including retirement savings account information, from third party websites or other websites maintained by Fidelity or its affiliates.

(j) “Fidelity Mutual Fund”

“Fidelity Mutual Fund” shall mean any investment company advised by Fidelity Management & Research Company or any of its affiliates.

(k) “FIIOC”

“FIIOC” shall mean Fidelity Investments Institutional Operations Company, Inc.

(l) “In Good Order”

“In Good Order” shall mean in a state or condition acceptable to the Trustee in its sole discretion, which the Trustee determines is reasonably necessary for accurate execution of the intended transaction.

Confidential Information

(m) “Insolvency”

“Insolvency” shall mean with respect to an Employer that (i) such Employer is unable to pay its debts as they become due, or (ii) such Employer is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(n) “Insolvent”

“Insolvent” shall mean with respect to an Employer that (i) such Employer is unable to pay its debts as they become due, or (ii) such Employer is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(o) “Losses”

“Losses” shall mean any and all loss, damage, penalty, liability, cost and expense, including without limitation, reasonable attorney’s fees and disbursements.

(p) “Mutual Fund”

“Mutual Fund” shall refer both to Fidelity Mutual Funds and Non-Fidelity Mutual Funds.

(q) “NAV”

“NAV” shall mean Net Asset Value.

(r) “NFSLLC”

“NFSLLC” shall mean National Financial Services LLC.

(s) “Non-Fidelity Mutual Fund”

“Non-Fidelity Mutual Fund” shall mean certain investment companies not advised by Fidelity Management & Research Company or any of its affiliates.

(t) “NYSE”

“NYSE” shall mean the New York Stock Exchange.

(u) “Participant”

“Participant” shall mean, with respect to the Plan, any employee (or former employee) with an account under the Plan, which has not yet been fully distributed and/or forfeited, and shall include the designated beneficiary(ies) with respect to the account of any deceased employee (or deceased former employee) until such account has been fully distributed and/or forfeited.

(v) “Participant Recordkeeping Reconciliation Period”

“Participant Recordkeeping Reconciliation Period” shall mean the period beginning on the date of the initial transfer of assets to the Trust and ending on the date of the completion of the reconciliation of Participant records.

Confidential Information

(w) “Person”

“Person” shall mean any corporation, joint stock company, limited liability company, association, partnership, joint venture, organization, individual, business or other trust or any other entity or organization of any kind or character, including a court or other governmental authority.

(x) “PIN”

“PIN” shall mean personal identification number.

(y) “Plan”

“Plan” shall mean the Brush Engineered Materials Inc. Executive Deferred Compensation Plan II.

(z) “Plan Administration Design & Discovery Document”

“Plan Administration Design & Discovery Document” shall mean the document which sets forth the administrative and recordkeeping duties and procedures to be followed by the Trustee in administering the Plan, as such document may be amended and in effect from time to time during the initial implementation of the Plan onto the Fidelity Participant Recordkeeping System (“FPRS”). This document is an interim document and shall be superseded by the approved Plan Administration Manual.

(aa) “Plan Administration Manual”

“Plan Administration Manual” shall mean the document which sets forth the administrative and recordkeeping duties and procedures to be followed by the Trustee in administering the Plan, as such document may be amended and in effect from time to time. This definition shall include the Plan Administration Design & Discovery Document from the implementation process until the full Plan Administration Manual can be generated and approved.

(bb) “Plan Sponsor Webstation”

“Plan Sponsor Webstation” shall mean the graphical windows based application that provides current Plan and Participant information including indicative data, account balances, activity and history.

(cc) “Reporting Date”

“Reporting Date” shall mean the last day of each fiscal quarter of the Plan and, if not on the last day of fiscal quarter, the date as of which the Trustee resigns or is removed pursuant to this Agreement or the date as of which this Agreement terminates pursuant to Section 9 hereof.

(dd) “SEC”

“SEC” shall mean the Securities and Exchange Commission.

(ee) “Sponsor”

“Sponsor” shall mean Brush Engineered Materials Inc., an Ohio corporation, or any successor to all or substantially all of its businesses which, by agreement, operation of law or otherwise, assumes the responsibility of the Sponsor under this Agreement.

(ff) “Trust”

“Trust” shall mean the Brush Engineered Materials Inc. Executive Deferred Compensation Plan II Trust, being the trust established by the Sponsor and the Trustee pursuant to the provisions of this Agreement.

Confidential Information

(gg) “Trustee”

“Trustee” shall mean Fidelity Management Trust Company, a Massachusetts trust company and any successor to all or substantially all of its trust business as described in Section 10. The term Trustee shall also include any successor trustee appointed pursuant to Section 10 to the extent such successor agrees to serve as Trustee under this Agreement.

(hh) “VRS”

“VRS” shall mean Voice Response System.

Section 2. Trust.

(a) Establishment.

The Sponsor hereby establishes the Trust with the Trustee. The Trust shall consist of an initial contribution of money or other property acceptable to the Trustee in its sole discretion, made by an Employer or transferred from a previous trustee under the Plan, such additional sums of money as shall from time to time be delivered to the Trustee under the Plan, all investments made therewith and proceeds thereof, and all earnings and profits thereon, less the payments that are made by the Trustee as provided herein, without distinction between principal and income. The Trustee hereby accepts the Trust on the terms and conditions set forth in this Agreement. In accepting this Trust, the Trustee shall be accountable for the assets received by it, subject to the terms and conditions of this Agreement.

(b) Grantor Trust.

The Trust is intended to be a grantor trust, of which the Sponsor is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Code, as amended, and shall be construed accordingly.

(c) Trust Assets.

The principal of the Trust contributed by each Employer, and any earnings thereon, shall be held in a sub-trust separate and apart from other funds of the Employer and shall be used exclusively for the uses and purposes of Participants with respect to such Employer and general creditors of such Employer as herein set forth. Participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Agreement shall be mere unsecured contractual rights of Participants and their beneficiaries against an Employer. Any assets held by the Trust in a sub-trust with respect to an Employer will be subject to the claims of such Employer’s general creditors under federal and state law in the event of Insolvency of such Employer.

(d) Non-Assignment.

Benefit payments to Participants and their beneficiaries funded under this Trust may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered, or subjected to attachment, garnishment, levy, execution, or other legal or equitable process. Notwithstanding anything in this Agreement to the contrary, the Sponsor can direct the Trustee to disperse monies pursuant to a domestic relations order as defined in Code section 414(p)(1)(B) in accordance with Section 4(a).

Confidential Information

Section 3. Payments to Sponsor .

Except as provided under this Agreement, the Sponsor shall have no right to retain or divert to others any of the Trust assets before all payment of benefits have been made to Participants pursuant to the terms of the Plan. Notwithstanding the foregoing, in the event that the Administrator determines that the amount of assets held in the Trust with reference to a particular Participant exceeds the obligation of the Participant's Employer to such Participant under the Plan, the Trustee shall disburse such excess amount to the Administrator as directed by the Administrator. The Trustee shall have no responsibility for determining the accuracy of the Administrator's calculations of such excess amounts.

Section 4. Disbursements .

(a) Directions from Administrator .

The Trustee shall disburse monies to the Administrator for benefit payments in the amounts that the Administrator directs from time to time in writing. The Trustee shall have no responsibility to ascertain whether the Administrator's direction complies with the terms of the Plan or any applicable law. The Trustee shall not be responsible for: (i) making benefit payments to Participants under the Plan, (ii) any Federal, State or local income tax reporting or withholding with respect to such Plan benefits, and (iii) FICA (Social Security and Medicare) or any Federal or State unemployment tax with respect to Plan distributions.

(b) Limitations .

The Trustee shall not be required to make any disbursement in excess of the net realizable value of the assets of the Trust at the time of the disbursement. The Trustee shall make all disbursements in cash to the Administrator.

Section 5. Investment of Trust .

(a) Selection of Investment Options .

The Trustee shall have no responsibility for the selection of investment options under the Trust and shall not render investment advice to any person in connection with the selection of such options.

(b) Available Investment Options .

The Sponsor shall direct the Trustee as to what investment options the Trust shall be invested in (i) during the Participant Recordkeeping Reconciliation Period, and (ii) following the Participant Recordkeeping Reconciliation Period, subject to the following limitations. The Sponsor may determine to offer as investment options only Mutual Funds; provided, however, that the Trustee shall not be considered a fiduciary with investment discretion. The Sponsor may add or remove investment options with the consent of the Trustee, which consent will not be unreasonably withheld to reflect administrative concerns and upon mutual amendment of this Agreement and the Schedules thereto, to reflect such additions.

Confidential Information

(c) Investment Directions.

The Sponsor shall direct the Trustee as to how to invest the assets held in the Trust. In order to provide for an accumulation of assets comparable to the contractual liabilities accruing under the Plan, the Sponsor may direct the Trustee in writing to invest the assets held in the Trust to correspond to the hypothetical investments made for Participants in accordance with their direction under the Plan. In such cases, Participants may provide directions with respect to their hypothetical investments under the Plan by use of the system maintained for such purposes by the Trustee or its agents, as may be agreed upon from time to time by the Sponsor and the Trustee, and shall be

processed in accordance with the fund exchange provisions set forth in the Plan Administration Manual. The Trustee shall not be liable for any loss or expense that arises from a Participant's exercise or non-exercise of rights under this Section 5 over the assets in the Participant's accounts. In the event that the Trustee fails to receive a proper direction, the assets in question shall be invested in the investment option set forth for such purpose on Schedule "C" until the Trustee receives a proper direction.

(d) Unfunded Status of Plan

The Sponsor's designation of available investment options, the maintenance of accounts for each Participant, the crediting of investments gains (or losses) to such accounts, and the exercise by Participants of any powers relating to investments under this Agreement are solely for the purpose of providing a mechanism for measuring the obligation of an Employer to any particular Participant under the applicable Plan. As provided in this Agreement, no Participant will have any preferential claim to or beneficial ownership interest in any asset or investment held in the Trust, and the rights of any Participant under the applicable Plan and this Agreement are solely those of an unsecured general creditor of the Employer with respect to the benefits of the Participant under the Plan.

(e) Mutual Funds.

On the effective date of this Agreement, in lieu of receiving a printed copy of the prospectus for each Fidelity Mutual Fund selected by the Sponsor as a Plan investment option or short-term investment fund, the Sponsor hereby consents to receiving such documents electronically. The Sponsor shall access each prospectus on the internet after receiving notice from the Trustee that a current version is available online at a website maintained by the Trustee or its affiliate. Trustee represents that on the effective date of this Agreement, a current version of each such prospectus is available at <https://www.fidelity.com> or such successor website as Trustee may notify the Sponsor of in writing from time to time. The Sponsor represents that it has accessed/will access each such prospectus as of the effective date of this Agreement at <https://www.fidelity.com> or such successor website as Trustee may notify the Sponsor of in writing from time to time. Transactions involving Non-Fidelity Mutual Funds shall be executed in accordance with the operational guidelines set forth in Schedule "D" attached hereto. Trust investments in Mutual Funds shall be subject to the following limitations:

(i) Execution of Purchases and Sales.

Purchases and sales of Mutual Funds (other than for exchanges) shall be made on the date on which the Trustee receives from the Sponsor In Good Order all information and documentation necessary to accurately effect such transactions and (if applicable) wire transfer of funds. Exchanges of Mutual Funds shall be processed in accordance with the fund exchange provisions set forth in the Plan Administration Manual.

Confidential Information

(ii) Voting.

The Sponsor directs the Trustee to vote the shares of Mutual Funds held in the Trust in the same manner as directed by Participants for the corresponding hypothetical shares of Mutual Funds credited to Participants' accounts under the Plan. At the time of mailing of notice of each annual or special stockholders' meeting of any Mutual Fund, the Trustee shall send a copy of the notice and all proxy solicitation materials to each Participant who has hypothetical shares of such Mutual Fund credited to the Participant's account, together with a voting direction form for return to the Trustee or its designee. The Participant shall have the right to direct the Trustee as to the manner in which the Trustee is to vote the hypothetical shares credited to the Participant's account. The Trustee shall vote the shares held in the Trust in a manner which corresponds to Participant directions with respect to the hypothetical shares credited to the Participant's Plan account. The Trustee shall not vote shares for which it has received no corresponding directions from the Participant.

During the Participant Recordkeeping Reconciliation Period, the Sponsor shall have the right to direct the Trustee as to the manner in which the Trustee is to vote the shares of the Mutual Funds in the Trust, including Mutual Fund shares held in any short-term investment fund for liquidity reserve. Following the Participant Recordkeeping Reconciliation Period, the Sponsor shall continue to have the right to direct the Trustee as to the manner in which the Trustee is to vote any Mutual Funds shares held in a short-term investment fund for liquidity reserve. The Trustee shall not vote any such Mutual Fund shares for which it has received no directions from the Sponsor.

With respect to all rights other than the right to vote, the Trustee shall follow the directions of the Sponsor. The Trustee shall have no further duty to solicit directions from the Sponsor or Participants.

(f) Trustee Powers.

The Trustee shall have the following powers and authority:

(i) Subject to this Section 5, to sell, exchange, convey, transfer, or otherwise dispose of any property held in the Trust, by private contract or at public auction. No person dealing with the Trustee shall be bound to see to the application of the purchase money or other property delivered to the Trustee or to inquire into the validity, expediency, or propriety of any such sale or other disposition.

(ii) To cause any securities or other property held as part of the Trust to be registered in the Trustee's own name, in the name of one or more of its nominees, or in the Trustee's account with the Depository Trust Company of New York and to hold any investments in bearer form, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust.

(iii) To keep that portion of the Trust in cash or cash balances as the Sponsor or Administrator may, from time to time, deem to be in the best interest of the Trust.

(iv) To make, execute, acknowledge, and deliver any and all documents of transfer or conveyance and to carry out the powers herein granted.

(v) To borrow funds from a bank or other financial institution not affiliated with the Trustee in order to provide sufficient liquidity to process Plan transactions in a timely fashion, provided that the cost of borrowing shall be allocated in a reasonable fashion to the investment fund(s) in need of liquidity. The Sponsor acknowledges that it has received the disclosure on the Trustee's line of credit program and credit allocation policy and a copy of the text of Prohibited Transaction Exemption 2002-55 prior to executing this Agreement if applicable.

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(vi) To settle, compromise, or submit to arbitration any claims, debts, or damages due to or arising from the Trust; to commence or defend suits or legal or administrative proceedings; to represent the Trust in all suits and legal and administrative hearings; and to pay all reasonable expenses arising from any such action, from the Trust if not paid by the Sponsor.

(vii) With the consent of the Sponsor which shall not be unreasonably withheld, the Trustee can employ legal, accounting, clerical, and other assistance as may be required in carrying out the provisions of this Agreement and to pay their reasonable expenses and compensation from the Trust if not paid by the Sponsor.

(viii) To do all other acts, although not specifically mentioned herein, as the Trustee may deem necessary to carry out any of the foregoing powers and the purposes of the Trust.

Notwithstanding any powers granted to Trustee pursuant to this Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of Section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Code. The Trustee will file an annual fiduciary return to the extent required by law.

Section 6. Recordkeeping and Administrative Services to Be Performed.

(a) General.

The Trustee shall perform those recordkeeping and administrative functions described in Schedule “A” attached hereto. These recordkeeping and administrative functions shall be performed within the framework of the Administrator’s written directions regarding the Plan’s provisions, guidelines and interpretations. The Sponsor acknowledges that the Trustee does not provide legal or tax advice, and that the Sponsor must obtain its own legal and tax counsel for advice on the plan design appropriate for its specific situation and on legal and tax issues pertaining to the administration of the Plan. The Sponsor further acknowledges that the Trustee has no continuing responsibility to be aware of and responsive to IRS guidance provided under Section 409A of the Code as the Trustee is not the responsible party for (a) ensuring that the Administrator’s or Sponsor’s direction to the Trustee

conforms with that guidance, and (b) the payment of all taxes and penalties associated with a failure to maintain such compliance.

(b) Accounts.

The Trustee shall keep accurate accounts of all investments, receipts, disbursements, and other transactions hereunder, and shall report the value of the assets held in the Trust as of the last day of each Reporting Date. Within thirty (30) days following each Reporting Date or within sixty (60) days in the case of a Reporting Date caused by the resignation or removal of the Trustee, or the termination of this Agreement, the Trustee shall file with the Administrator a written account setting forth all investments, receipts, disbursements, and other transactions effected by the Trustee between the Reporting Date and the prior Reporting Date, and setting forth the value of the Trust as of the Reporting Date. The Administrator shall use all reasonable efforts to bring to the Trustee’s attention, as soon as possible, any concerns or objections it may have relating to the accounts. Notwithstanding the previous sentence, and except as otherwise required under applicable law, upon the expiration of twelve (12) months from the date of filing such account, the Trustee shall have no liability or further accountability to anyone with respect to the propriety of its acts or transactions shown in such account, except with respect to such acts or transactions as to which a written objection shall have been filed with the Trustee within such twelve (12) month period.

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(c) Inspection and Audit .

Upon the resignation or removal of the Trustee or the termination of this Agreement, the Trustee shall provide to the Sponsor, at no expense to the Sponsor, in the format regularly provided to the Sponsor, a statement of each Participant's account as of the resignation, removal, or termination, and the Trustee shall provide to the Sponsor or the Plan's new recordkeeper such further records as are reasonable, at the Sponsor's expense.

The Trustee will provide to auditors (including third-party auditors and Sponsor's internal audit staff) as Sponsor may designate in writing, access to any Trustee owned or managed facility at which the services are being performed, to appropriate Trustee management personnel, and to the data and records (and other documentation reasonably requested by the Sponsor) maintained by the Trustee with respect to the services solely for the purpose of examining (i) transactional books and records maintained by the Trustee in order to provide the services, (ii) documentation of service level performance, and (iii) invoices to the Sponsor. Any such audits will be conducted at the Sponsor's expense. The Sponsor and its auditors will first look to the most recent Type II Service Auditor's Report ("Type II SAR") before conducting further audits. Type II SAR's are reports issued by the Trustee's or its affiliate's independent public accounting firm in accordance with Statement on Auditing Standards No. 70 ("SAS 70"). If a matter is not covered in such Type II SAR, then the Sponsor will provide the Trustee with a proposed detailed scope and timeframe of the audit requested by the Sponsor in writing at least sixty (60) days prior to date of the audit. The Sponsor will provide the Trustee with not less than ninety (90) days prior written notice of an audit, excepting audit requests from governmental or regulatory agencies. The Sponsor and its auditors will conduct such audits in a manner that will result in a minimum of inconvenience and disruption to the Trustee's operations. Audits may be conducted only during normal business hours and no more frequently than annually unless otherwise required as a matter of law or for compliance with regulatory or contractual requirements. Any audit assistance provided by the Trustee in excess of the number of audit hours per annum referenced in the fee schedule shall be provided on a fee-for-service basis. The Sponsor and its auditors will not be entitled to review or audit (i) data or information of other customers or clients of the Trustee, (ii) any of Trustee's proprietary data, or (iii) any other Confidential Information of the Trustee that is not relevant for the purposes of the audit. The Sponsor and its auditors will not be entitled to logical access to the Trustee's networks and systems, nor unrestricted physical access to Trustee's facilities and personnel. Reviews of processes, controls, and support documentation will be facilitated with appropriate Trustee's personnel. The Trustee will use commercially reasonable efforts to cooperate in the audit, will make available on a timely basis the information reasonably required to conduct the audit and will assist the designated employees of the Sponsor or its auditors as reasonably necessary. The Sponsor will reimburse the Trustee for any costs incurred by the Trustee in connection with an audit conducted pursuant to this section. To the maximum extent possible, audits will be designed and conducted (in such manner and with such frequency) so as not to interfere with the provision of the services. The Sponsor will not use any competitors of the Trustee (or any significant subcontractor of Trustee under this Agreement) to conduct such audits. The auditors and other

representatives of the Sponsor will execute and deliver such confidentiality and non-disclosure agreements and comply with such security and confidentiality requirements as the Trustee may reasonably request in connection with such audits.

(d) Notice of Plan Amendment .

The Trustee's provision of the recordkeeping and administrative services set forth in this Section shall be conditioned on the Sponsor delivering to the Trustee a copy of any amendment to the Plan impacting the services to be provided under this Agreement as soon as administratively feasible following the amendment's adoption, and on the Administrator providing the Trustee, on a timely basis, with all the information the Trustee deems necessary for the Trustee to perform the recordkeeping and administrative services and such other information as the Trustee may reasonably request.

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(e) Returns, Reports and Information .

Except as set forth in the Plan Reporting section of Schedule “A”, the Administrator shall be responsible for the preparation and filing of all returns, reports, and information required of the Trust or Plan by law. The Trustee shall provide the Administrator with such information as the Administrator may reasonably request to make these filings. The Administrator shall also be responsible for making any disclosures to Participants required by law.

Section 7. Compensation and Expenses .

Sponsor shall pay to Trustee, within thirty (30) days of receipt of the Trustee’s bill, the fees for services in accordance with Schedule “B.” Fees for services are specifically outlined in Schedule “B” and are based on any assumptions identified therein. In the event that the Plan characteristics referenced in the assumptions outlined in Schedule “B” change significantly by either falling below or exceeding current or projected levels, such fees may be subject to revision, upon mutual renegotiation. To reflect increased operating costs, Trustee may once each calendar year amend Schedule “B” without the Sponsor’s consent upon one hundred and twenty (120) days prior notice to the Sponsor.

All reasonable expenses of Plan administration as shown on Schedule “B” attached hereto, as amended from time to time, shall be a charge against and paid from the appropriate Participant-related accounts, except to the extent such amounts are paid by the Sponsor in a timely manner.

All expenses of the Trustee relating directly to the acquisition and disposition of investments constituting part of the Trust, and all taxes of any kind whatsoever that may be levied or assessed under existing or future laws upon or in respect of the Trust or the income thereof, shall be a charge against and paid from the appropriate Participant-related accounts.

Section 8. Directions and Indemnification .

(a) Identity of the Sponsor and the Administrator .

The Trustee shall be fully protected in relying on the fact that the Sponsor and the Administrator under the Plan are the individual or persons named as such above or such other individuals or persons as the Sponsor may notify the Trustee in writing.

(b) Directions from the Sponsor and the Administrator .

Whenever the Sponsor or the Administrator provides a direction to the Trustee, the Trustee shall not be liable for any loss or expense arising from the direction if the direction is contained in a writing provided by any individual whose name has been submitted (and not withdrawn) in writing to the Trustee by the Sponsor or the Administrator unless it is clear on the direction’s face that the actions to be taken under the direction would be contrary to the terms of this Agreement. The Trustee may rely without further duty of inquiry on the authority of any such individual to provide direction to the Trustee on behalf of the Sponsor.

For purposes of this Section, such direction may also be made via EDT, facsimile or such other secure electronic means in accordance with procedures agreed to by the Sponsor and the Trustee and, in any such case the Trustee shall be fully protected in relying on such direction as if it were a direction made in writing by the Sponsor.

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(c) Directions from Participants .

The Trustee shall not be liable for any loss which arises from any Participant's exercise or non-exercise of rights under the Plan over the assets in the Participants' hypothetical accounts.

(d) Indemnification .

The Sponsor shall indemnify the Trustee against, and hold the Trustee harmless from, any and all Losses that may be incurred by, imposed upon, or asserted against the Trustee by reason of any claim, regulatory proceeding, or litigation arising from any act done or omitted to be done by any individual or person with respect to the Plan or Trust, excepting only any and all Losses arising solely from the Trustee's breach of this Agreement, negligence, bad faith or willful misconduct.

The Trustee shall indemnify the Sponsor against, and hold the Sponsor harmless from, any and all Losses that may be incurred by, imposed upon, or asserted against the Sponsor by reason of any claim, regulatory proceeding, or litigation arising from Trustee's breach of this Agreement, negligence, bad faith or willful misconduct.

The Trustee shall also indemnify the Sponsor against and hold the Sponsor harmless from any and all such Losses that may be incurred by, imposed upon, or asserted against the Sponsor solely as a result of: i) any defects in the investment methodology embodied in the target asset allocation or model portfolio provided through Portfolio Review, except to the extent that any such Losses arise from information provided by the Participant, the Sponsor or third parties; or ii) any prohibited transactions resulting from the provision of Portfolio Review by the Trustee.

(e) Survival .

The provisions of this Section shall survive the termination of this Agreement.

Section 9. Resignation or Removal of Trustee .

(a) Resignation and Removal .

The Trustee may resign at any time in accordance with the notice provisions set forth below. The Sponsor may remove the Trustee at any time in accordance with the notice provisions set forth below.

(b) Termination .

This Agreement may be terminated in full, or with respect to only a portion of the Plan (i.e. a "partial deconversion") at any time by the Sponsor upon prior written notice to the Trustee in accordance with the notice provisions set forth below.

(c) Notice Period .

In the event either party desires to terminate this Agreement or any Services hereunder, the party shall provide at least sixty (60) days prior written notice of the termination date to the other party; provided, however, that the receiving party may agree, in writing, to a shorter notice period.

(d) Transition Assistance .

In the event of termination of this Agreement, if requested by Sponsor, the Trustee shall assist Sponsor in developing a plan for the orderly transition of the Plan data, cash and assets then constituting the Trust and services provided by the Trustee hereunder to Sponsor or its designee. The Trustee shall provide such assistance for a period not extending beyond sixty (60) days from the termination date of this Agreement. The Trustee shall provide to Sponsor, or to any person designated by Sponsor, at a mutually agreeable time, one file of the Plan data prepared and maintained by the Trustee in the ordinary course of business, in the Trustee's format. The Trustee may provide other or additional transition assistance as mutually determined for additional fees, which shall be due and payable by the Sponsor prior to any termination of this Agreement.

(e) Failure to Appoint Successor .

If, by the termination date, the Sponsor has not notified the Trustee in writing as to the individual or entity to which the assets and cash are to be transferred and delivered, the Trustee may bring an appropriate action or proceeding for leave to deposit the assets and cash in a court of competent jurisdiction. The Trustee shall be reimbursed by the Sponsor for all costs and expenses of the action or proceeding including, without limitation, reasonable attorneys' fees and disbursements.

Section 10. Successor Trustee .

(a) Appointment .

If the office of Trustee becomes vacant for any reason, the Sponsor may in writing appoint a successor trustee under this Agreement. The successor trustee shall have all of the rights, powers, privileges, obligations, duties, liabilities, and immunities granted to the Trustee under this Agreement. The successor trustee and predecessor trustee

shall not be liable for the acts or omissions of the other with respect to the Trust.

(b) Acceptance.

As of the date the successor trustee accepts its appointment under this Agreement, title to and possession of the Trust assets shall immediately vest in the successor trustee without any further action on the part of the predecessor trustee, except as may be required to evidence such transition. The predecessor trustee shall execute all instruments and do all acts that may be reasonably necessary and requested in writing by the Sponsor or the successor trustee to vest title to all Trust assets in the successor trustee or to deliver all Trust assets to the successor trustee.

(c) Corporate Action.

Any successor of the Trustee or successor trustee, either through sale or transfer of the business or trust department of the Trustee or successor trustee, or through reorganization, consolidation, or merger, or any similar transaction of either the Trustee or successor trustee, shall, upon consummation of the transaction, become the successor trustee under this Agreement.

Section 11. Resignation, Removal, and Termination Notices.

All notices of resignation, removal, or termination under this Agreement must be in writing and mailed to the party to which the notice is being given by certified or registered mail, return receipt requested, to the Sponsor c/o Director — Treasury Operations, Brush Engineered Materials Inc., 6070 Parkland Boulevard, Mayfield Heights, OH 44124, and to the Trustee c/o Fidelity

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Investments, Contracts Development & Negotiation, 82 Devonshire Street, MM1M, Boston, Massachusetts 02109, or to such other addresses as the parties have notified each other of in the foregoing manner.

Section 12. Duration.

This Trust shall continue in effect without limit as to time, subject, however, to the provisions of this Agreement relating to amendment, modification, and termination thereof.

Section 13. Insolvency of Sponsor.

(a) Trustee shall cease disbursement of funds for payment of benefits to Participants with respect to an Employer if the Employer is Insolvent, and shall cease disbursement of funds for payment of benefits if the Sponsor is Insolvent.

(b) All times during the continuance of this Trust, the principal and income of a sub-trust with respect to an Employer shall be subject to claims of general creditors of such Employer under federal and state law as set forth below.

(i) The Board of Directors and the Chief Executive Officer of the Sponsor and the highest ranking officer of the Employer shall have the duty to inform Trustee in writing of such Employer's Insolvency. If a person claiming to be a creditor of the Employer alleges in writing to Trustee that such Employer has become Insolvent, Trustee shall determine whether the Employer is Insolvent and, pending such determination, Trustee shall discontinue disbursements for payment of benefits to Participants of such Employer (if the Employer is the Sponsor, the Trustee shall discontinue disbursements for payment of all benefits to all Participants).

(ii) Unless Trustee has actual knowledge of the Employer's Insolvency, or has received notice from Sponsor or such Employer or a person claiming to be a creditor alleging that such Employer is Insolvent, Trustee shall have no duty to inquire whether an Employer is Insolvent. Trustee may in all events rely on such evidence concerning an Employer's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning such Employer's solvency.

(iii) If at any time Trustee has determined that an Employer is Insolvent, Trustee shall discontinue disbursements for payments to such Employer's Participants (if the Employer is the Sponsor, the Trustee shall discontinue disbursements for payment of benefits to all Participants) and shall hold the assets of the sub-trust with respect to such Employer for the benefit of such Employer's general creditors. Nothing in this Agreement shall in any way diminish any rights of Participants to pursue their rights as general creditors of the Employer (and/or the Sponsor) with respect to benefits due under the Plan or otherwise.

(iv) Trustee shall resume disbursement for the payment of benefits to Participants in accordance with this Agreement only after Trustee has determined that the Employer (and/or Sponsor) is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment of benefits from the Trust pursuant to (a) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Participants under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made to Participants by the Employer or Sponsor in lieu of the payments provided for hereunder during any such period of discontinuance.

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Section 14. Amendment or Modification .

This Agreement may be amended or modified at any time and from time to time only by an instrument executed by both the Sponsor and the Trustee. The individuals authorized to sign such instrument shall be those authorized by the Sponsor and the Trustee respectively. Notwithstanding the foregoing, but subject to Section 7, the Trustee reserves the right to unilaterally amend this Agreement to update services and procedures and to revise the fee schedule upon 120 days notice to the Sponsor.

Section 15. Electronic Services .

(a) The Trustee may provide communications and Electronic Services via electronic media, including, but not limited to NetBenefits, eWorkplace and Fidelity Plan Sponsor WebStation. The Sponsor agrees to use such Electronic Services only in the course of reasonable administration of or participation in the Plan and to keep confidential and not alter, publish, copy, broadcast, retransmit, reproduce, frame-in, link to, commercially exploit or otherwise disseminate the Electronic Services, any content associated therewith, or any portion thereof (including, without limitation, any trademarks and service marks associated therewith), without the written consent of the Trustee. Notwithstanding the foregoing, the Trustee acknowledges that certain Electronic Services may, by their nature, be intended for non-commercial, personal use by Participants or their beneficiaries, with respect to their participation in the Plan, or for their other retirement or employee benefit planning purposes, and certain content may be intended or permitted to be modified by the Sponsor in connection with the administration of the Plan. In such cases, the Trustee will notify the Sponsor of such fact, and any requirements or guidelines associated with such usage or modification no later than the time of initial delivery of such Electronic Services. To the extent permission is granted to make Electronic Services available to administrative personnel designated by the Sponsor, it shall be the responsibility of the Sponsor to keep the Trustee informed as to which of the Sponsor personnel are authorized to have such access. Except to the extent otherwise specifically agreed by the parties, the Trustee reserves the right, upon notice when reasonably feasible, to modify or discontinue Electronic Services, or any portion thereof, at any time.

(b) Without limiting the responsibilities of the Trustee or the rights of the Sponsor stated elsewhere in this Agreement, Electronic Services shall be provided to the Sponsor without acceptance of legal liability related to or arising out of the electronic nature of the delivery or provision of such Services. To the extent that any Electronic Services utilize Internet services to transport data or communications, the Trustee will take, and the Sponsor agrees to follow, reasonable security precautions. However, the Trustee disclaims any liability for interception of any such data or communications. The Trustee reserves the right not to accept data or communications transmitted electronically or via electronic media by the Sponsor or a third party if it determines that the method of delivery does not provide adequate data security, or if it is not administratively feasible for the Trustee to use the data security provided. The Trustee shall not be responsible for, and makes no warranties regarding access, speed or availability of Internet or network services, or any other service required for electronic communication, nor does the Trustee make any warranties, express or implied, and specifically disclaims all warranties of merchantability, fitness for a particular purpose, or non-infringement. The Trustee shall not be responsible for any loss or damage related to or resulting from any changes or modifications to the Electronic Services made in violation of this Agreement.

(c) The Sponsor acknowledges that certain web sites through which the Electronic Services are accessed may be protected by passwords or require a login and the Sponsor agrees that neither the Sponsor nor, where applicable, Participants, will obtain or attempt to obtain unauthorized access to such Services or to any other protected materials or information, through any means not intentionally made available by the Trustee for the specific use of the Sponsor. To the extent that a PIN is necessary for access to the Electronic Services, the Sponsor

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and/or its Participants, as the case may be, are solely responsible for all activities that occur in connection with such PINs.

(d) The Trustee will provide to Participants the FullViewsm service via NetBenefits, through which Participants may elect to consolidate and manage any retirement account information available through NetBenefits as well as External Account Information. To the extent not provided by the Trustee or its affiliates, the data aggregation service will be provided by Yodlee.com, Inc. or such other independent provider as the Trustee may select, pursuant to a contract that requires the provider to take appropriate steps to protect the privacy and confidentiality of information furnished by users of the service. The Sponsor acknowledges that Participants who elect to use FullViewsm must provide passwords and PINs to the provider of data aggregation services. The Trustee will use External Account Information to furnish and support FullViewsm or other services provided pursuant to this Agreement, and as otherwise directed by the Participant. The Trustee will not furnish External Account Information to any third party, except pursuant to subpoena or other applicable law. The Sponsor agrees that the information accumulated through FullViewsm shall not be made available to the Sponsor, provided, however, that the Trustee shall provide to the Sponsor, upon request, aggregate usage data that contains no personally identifiable information.

Section 16. Assignment.

This Agreement, and any of its rights and obligations hereunder, may not be assigned by any party without the prior written consent of the other party(ies), and such consent may be withheld in any party's sole discretion. Notwithstanding the foregoing, Trustee may assign this Agreement in whole or in part, and any of its rights and obligations hereunder, to a subsidiary or affiliate of Trustee without consent of the Sponsor. All provisions in this Agreement shall extend to and be binding upon the parties hereto and their respective successors and permitted assigns.

Section 17. Force Majeure.

No party shall be deemed in default of this Agreement to the extent that any delay or failure in performance of its obligation(s) results, without its fault or negligence, from any cause beyond its reasonable control, such as acts of God, acts of civil or military authority, acts of terrorism, whether actual or threatened, quarantines, embargoes, epidemics, war, riots, insurrections, fires, explosions, earthquakes, floods, unusually severe weather conditions, power outages or strikes. This clause shall not excuse any of the parties to the Agreement from any liability which results from failure to have in place reasonable disaster recovery and safeguarding plans adequate for protection of all data each of the parties to the Agreement are responsible for maintaining for the Plan.

Section 18. Confidentiality; Safeguarding of Data.

(a) Confidential Information. In connection with this Agreement, each of the parties has disclosed and may continue to disclose to the other party information that relates to the disclosing party's business operations, financial condition, employees, former employees, eligible dependents and beneficiaries of such employees and former employees, customers, business associates, products, services or technical knowledge. Except as otherwise specifically agreed in writing by the parties, Trustee and Sponsor each agree that from and after the Effective Date (i) all information communicated to it before or after the Effective Date by the other and identified as confidential or proprietary, (ii) all information identified as confidential or proprietary to which it has access in connection with the services, whether such access was before or after the Effective Date, (iii) all information communicated to it that reasonably should have been understood by the receiving party to be proprietary and confidential to the disclosing party including without limitation

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technical, trade secret or business information, financial information, business or marketing strategies or plans, product development or customer information, and (iv) the terms and conditions of this Agreement (collectively, the “Confidential Information”) will be used only in accordance with this Agreement.

(b) Ownership of Information/Safeguarding Information. Each party’s Confidential Information will remain the property of that party except as otherwise expressly provided in this Agreement. Each party will use at least the same degree of care to safeguard and to prevent disclosing to third parties the Confidential Information of the other as it employs to avoid unauthorized disclosure or publication of its own information (or information of its customers) of a similar nature, and in any event, no less than reasonable care. Each party may use and disclose relevant aspects of the other party’s Confidential Information to its employees, affiliates, subcontractors and agents to the extent such disclosure is reasonably necessary for the performance of its obligations under this Agreement or the enforcement of its rights under this Agreement; provided, however, that the disclosing party shall ensure that such parties agree to be bound by confidentiality provisions at least as restrictive as those set forth in this Section 18; and provided further, however, that in no event shall Sponsor disclose such Confidential Information to direct competitors of the Trustee. Each party will be responsible for any improper disclosure of Confidential Information by such party’s employees, affiliates, subcontractors or agents. Neither party will (i) make any use or copies of the Confidential Information of the other except as contemplated by this Agreement, or (ii) sell, assign, lease or otherwise commercially exploit the Confidential Information (or any derivative works thereof) of the other party. Neither party will withhold the Confidential Information of the other party (including in the case of the Sponsor, the Personal Data) or refuse for any reason (including due to the other party’s actual or alleged breach of this Agreement) to promptly return to the other party its Confidential Information (including copies thereof) if requested to do so.

(c) Return of Information. Upon expiration or any termination of this Agreement and completion of a party’s obligations under this Agreement, each party will return or destroy, as the owner may direct, all documentation in any medium that contains or refers to the other party’s Confidential Information; however, each party may retain copies of Confidential Information of the other party solely to the extent required for compliance with applicable professional standards and applicable law.

(d) Exceptions to Confidential Treatment. Sections 18(a), (b) and (c) shall not apply to any particular information that either party can demonstrate (i) was, at the time of disclosure to it (a) already known to the receiving party (and not subject to a pre-existing confidentiality agreement) or (b) publicly known; (ii) after disclosure to it, becomes publicly known through no fault of the receiving party; (iii) was received after disclosure to it from a third party who did not indicate that the information was to be treated as confidential in connection with the disclosure or (iv) was independently developed by the receiving party without use of the Confidential Information of the disclosing party. In addition, a party will not be considered to have breached its obligations under this Section 18 for disclosing Confidential Information of the other party to the extent required to satisfy any valid subpoena, court order, litigation or regulatory request, or any other legal requirement of a competent governmental authority, provided that following receipt of any such request, or making a determination that disclosure is legally required, and to the extent that it may legally do so, such party advises the other party prior to making such disclosure in order that the other party may object to such disclosure, take action to ensure confidential

treatment of the Confidential Information, or take such other action as it considers appropriate to protect the Confidential Information. In addition, Trustee will not be considered to have breached its obligations under this Section 18 for using or disclosing Confidential Information to the extent Trustee or an affiliate of the Trustee is specifically authorized by an individual to use that individual’s personal information (including plan-related and account-related information applicable to that individual) in connection with any other Trustee products or services.

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(e) No Duty to Disclose . Nothing contained in this Section 18 will be construed as obligating a party to disclose its Confidential Information to the other party, or as granting to or conferring on a party, expressly or impliedly, any rights or license to the Confidential Information of the other party provided that Trustee shall be excused from its obligations to perform hereunder to the extent Sponsor fails to provide any such information as is reasonably necessary for Trustee to perform the services and otherwise meet its obligations hereunder.

(f) Personal Data . In order to fulfill its obligations under this Agreement, Trustee may receive in connection with this Agreement or the services provided hereunder personal data, including compensation, benefits, tax, marital/family status and other similar information about participants ("Personal Data"). Trustee acknowledges that it is receiving Personal Data only in connection with the performance of the services and Trustee will not use or disclose Personal Data without the permission of the Sponsor for any purpose other than as permitted in this Agreement and in fulfilling its obligations under this Agreement, unless disclosure is required or permitted under this Agreement or by applicable law. With respect to Personal Data it receives under this Agreement, Trustee agrees to (i) safeguard Personal Data in accordance with its privacy policy, and (ii) exercise at least the same standard of care in safeguarding such Personal Data that it uses to protect the personal data of its own employees. Nothing in this Agreement shall affect in any way other product or service arrangements entered into separately by Trustee or its affiliates and the Sponsor and/or participants.

(g) Foreign Data Protection Laws . Sponsor is responsible for any and all activities necessary to ensure compliance with applicable laws regarding data protection outside of the United States and for ensuring that the transfer of Personal Data to Trustee is in compliance with such laws. Sponsor will not transfer any Personal Data to Trustee unless Sponsor has satisfied such laws, such as through the use of consents. Trustee will be entitled to presume that, unless notified to the contrary by Sponsor, activities necessary to ensure compliance with such laws have been satisfied by Sponsor with respect to all Personal Data furnished to Trustee hereunder. Trustee will have no obligation to process any Personal Data if Trustee is on notice that compliance with such laws has not been met.

Section 19. General .

(a) Performance by Trustee, its Agents or Affiliates .

The Sponsor acknowledges and authorizes that the services to be provided under this Agreement shall be provided by the Trustee, its agents or affiliates, and that certain of such services may be provided pursuant to one or more other contractual agreements or relationships.

(b) Entire Agreement .

This Agreement, together with the Schedules referenced herein, contains all of the terms agreed upon between the parties with respect to the subject matter hereof. This Agreement supersedes any and all other agreements, written or oral, made by the parties with respect to the services.

(c) Waiver .

No waiver by either party of any failure or refusal to comply with an obligation hereunder shall be deemed a waiver of any other obligation hereunder or subsequent failure or refusal to comply with any other obligation hereunder.

(d) Successors and Assigns .

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The stipulations in this Agreement shall inure to the benefit of, and shall bind, the successors and assigns of the respective parties.

(e) Partial Invalidity.

If any term or provision of this Agreement or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

(f) Section Headings.

The headings of the various sections and subsections of this Agreement have been inserted only for the purposes of convenience and are not part of this Agreement and shall not be deemed in any manner to modify, explain, expand or restrict any of the provisions of this Agreement.

(g) Communications.

In the event that the Sponsor retains any responsibility for delivering Participant communications to some or all Participants and beneficiaries, the Sponsor agrees to furnish the communications to such Participants in a timely manner as determined under applicable law.

The provisions of this Agreement shall apply to all information provided and all Participant communications prepared and delivered by the Sponsor or the Trustee during the implementation period prior to the execution date of this Agreement and throughout the term set forth in this Agreement.

(h) Survival.

Trustee's and Sponsor's respective obligations under this Agreement, which by their nature would continue beyond the termination of this Agreement, including but not limited to those contained in Sections titled Inspection and Audit, Indemnification, Confidentiality; Safeguarding of Data, shall survive any termination of the Agreement.

Section 20. Authorization To Make Available Fidelity Personal Guidance Offerings.

Notwithstanding any provision of the Agreement to the contrary, Sponsor hereby authorizes Trustee, Fidelity Employer Services Company LLC, Fidelity Brokerage Services LLC, and other affiliates of the Trustee, throughout the term of this Agreement and any extensions thereto, to provide and/or offer personal and/or workplace services, programs, and products (collectively, "Personal Guidance Offerings") to any and all Persons with respect to whom the Trustee receives any information hereunder, including Personal Guidance Offerings unrelated to retirement or employment, and the Trustee may use for such purpose any information received hereunder or otherwise related to the Plan or Sponsor. Such information shall be treated in accordance with Fidelity Investments' privacy policy. Any information collected by the Trustee in the course of providing Personal Guidance Offerings may be retained and used by the Trustee, Fidelity Employer Services Company LLC, Fidelity Brokerage Services LLC, or affiliates of the Trustee after the termination of this Agreement. Persons who request that the Trustee discontinue communications related to Personal Guidance Offerings other than workplace-related offerings shall be permitted to do so in accordance with industry rules and practices and through various means that may be specific by communication medium. Trustee agrees to defend, indemnify and hold harmless the Sponsor against any Losses, brought against the Sponsor by any individual who is contacted by the Trustee or any of its affiliates pursuant to the Sponsor's authorizations in

Confidential Information

Section 20 where such claims or Losses allege that actions taken by Trustee or its affiliates in the marketing, sale or servicing of any product were (i) negligent, fraudulent, misleading, or inaccurate, (ii) in violation of applicable law, or (iii) in breach of the terms of any agreement(s) entered into between such individual and Trustee (or its affiliate) with respect to such products. Sponsor shall be solely responsible for ensuring that its authorizations in Section 20 comply with all laws, policies and contracts to which the Sponsor is subject.

Section 21. Situs of Trust Assets .

The Sponsor and the Trustee agree that no assets of the Trust shall be located or transferred outside of the United States.

Section 22. Governing Law .

(a) Massachusetts Law Controls .

This Agreement is being made in the Commonwealth of Massachusetts, and the Trust shall be administered as a Massachusetts trust. The validity, construction, effect, and administration of this Agreement shall be governed by and interpreted in accordance with the laws of the Commonwealth of Massachusetts.

(b) Trust Agreement Controls .

The Trustee is not a party to the Plan, and in the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of this Agreement shall control.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the day and year first above written. By signing below, the undersigned represent that they are authorized to execute this Agreement on behalf of the respective parties. Each party may rely without duty of inquiry on the foregoing representation.

BRUSH ENGINEERED MATERIALS INC.

By: _____
Authorized Signatory
Name:
Title:
Date:

FIDELITY MANAGEMENT TRUST COMPANY

By: _____
FMTC Authorized Signatory
Name:
Date:

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**SECOND AMENDMENT
TO
BRUSH ENGINEERED MATERIALS INC.
AMENDED AND RESTATED EXECUTIVE DEFERRED COMPENSATION PLAN II**

The Brush Engineered Materials Inc. Amended and Restated Executive Deferred Compensation Plan II (the “Plan”), adopted on June 29, 2008, is here by amended in the following respects effective July 28, 2009.

1. Section 2.20 of the Plan is amended and restated as follows:

2.20 Valuation Date means each day the New York Stock Exchange is open.

2. A new Section 2.21 is added to the Plan to provide as follows:

2.21 Change in Control means

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of voting securities of the Company where such acquisition causes such Person to own (X) 20% or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”) without the approval of the Incumbent Board as defined in (ii) below or (Y) 35% or more of the Outstanding Voting Securities of the Company with the approval of the Incumbent Board; provided, however, that for purposes of this subsection (i), the following acquisitions shall not be deemed to result in a Change in Control: (A) any acquisition directly from the Company that is approved by the Incumbent Board (as defined in subsection (ii), below), (B) any acquisition by the Company or a subsidiary of the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, (D) any acquisition by any Person pursuant to a transaction described in clauses (A), (B) and (C) of subsection (iii) below, or (E) any acquisition by, or other Business Combination (as defined in (iii) below) with, a person or group of which employees of the Company or any subsidiary of the Company control a greater than 25% interest (a “MBO”) but only if at least one Participant is one of those employees of the Company or any subsidiary of the Company that are participating in the MBO; provided, further, that if any Person’s beneficial ownership of the Outstanding Company Voting Securities reaches or exceeds 20% or 35%, as the case may be, as a result of a transaction described in clause (A) or (B) above, and such Person subsequently acquires beneficial ownership of additional voting securities of the Company, such subsequent acquisition shall be treated as an acquisition that causes such Person to own 20% or 35% or more, as the case may be, of the Outstanding Company Voting Securities; and provided, further, that if at least a

majority of the members of the Incumbent Board determines in good faith that a Person has acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of the Outstanding Company Voting Securities inadvertently, and such Person divests as promptly as practicable a sufficient number of shares so that such Person beneficially owns (within the meanings of Rule 13d-3 promulgated under the Exchange Act) less than 20% of the Outstanding Company Voting Securities, then no Change of Control shall have occurred as a result of such Person's acquisition; or

(ii) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board" (as modified by this clause (ii)) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) the consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation, or other transaction (“Business Combination”) excluding, however, such a Business Combination pursuant to which (A) the individuals and entities who were the ultimate beneficial owners of voting securities of the Company immediately prior to such Business Combination beneficially own, directly or indirectly, more than 65% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries), (B) no Person (excluding any employee benefit plan (or related trust) of the Company, the Company or such entity resulting from such Business Combination) beneficially owns, directly or indirectly (X) 20% or more, if such Business Combination is approved by the Incumbent Board or (Y) 35% or more, if such Business Combination is not approved by the Incumbent Board, of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company except pursuant to a Business Combination described in clauses (A), (B) and (C) of subsection (iii), above.

3. Section 5.2 of the Plan is amended and restated as follows:

5.2 Investment Return. Each Account shall be deemed to bear an investment return as if invested in the manner elected by the Participant from a list of investment funds from time to time determined by the Compensation Committee. The Compensation Committee may delegate to the Company's Retirement Plan Investment Committee the duty and authority to determine the investment funds to be used for this purpose under the Plan, including the discretion to eliminate, add, or substitute investment funds from time to time. Deemed investment return under the Plan shall be determined from the date of crediting of an amount to the Participant's Account (including deemed income thereon) through the date which is three days prior to distribution of such amount from the Account in accordance with procedures established by the Company. A Participant shall be permitted to change his investment election under the Plan for any portion or all of his Account as of any day the New York Stock Exchange is open in accordance with such rules and procedures as the Company shall establish for this purpose. The Company shall have no obligation to actually invest funds pursuant to a Participant's elections, and if the Company does invest funds, a Participant shall have no right to any invested assets other than as a general unsecured creditor of the Company. During any period in which a Participant has not made an election relating to the investment of some portion of his Account, such as in the case of an investment fund previously selected by the Participant ceasing to be available under the Plan, the Retirement Plan Investment Committee shall determine the investment fund or funds to be used in determining investment return for that portion of his Account.

4. A new Section 7.6 is added to the Plan to provide as follows:

7.6 Provisions Effective Upon a Change in Control. Notwithstanding the provisions of Section 7.1 and 7.2, upon a Change in Control the Administrative Committee, whether or not earlier appointed, shall consist of those three Participants from time to time having the largest Accounts under the Plan following the date on which the Change in Control occurs who consent to serve on the Administrative Committee. The Administrative Committee as so constituted shall replace any Administrative Committee earlier appointed or established pursuant to Section 7.2. The Administrative Committee shall assume the role and duties of the Plan Administrator as otherwise set forth in this Article 7. Any individual serving on the Administrative Committee shall not vote or act on any matter relating solely to himself. In the event that there are not three Participants available to serve in such capacity, the remaining Participants may appoint an independent third party administrator to serve in such capacity.

5. A new Section 7.7 is added to the Plan to provide as follows:

7.7 Legal Fees and Expenses Following Change in Control. Following a Change in Control, in the event that the Administrative Committee should determine that the

Company has failed to comply with any of its obligations under the Plan or in the event that the Company or any other person takes or threatens to take any action to declare the Plan void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, any Participant the benefits provided or intended to be provided to the Participant under the Plan, the Company irrevocably authorizes the Administrative Committee or affected Participant, as the case may be, (the "Claimant") from time to time to retain counsel of Claimant's choice, at the expense of the Company as hereafter provided, to advise and represent the Claimant in connection with any such interpretation, enforcement or defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Without respect to whether the Claimant prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Claimant in connection with any of the foregoing. Such payments shall be made no later than December 31 of the year following the year in the which the Claimant incurs the expenses, provided that in no event will the amount of expenses eligible for reimbursement in one year affect the amount of expenses to be reimbursed, or in-kind benefits to be provided, in any other taxable year.

6. Section 8.5 of the Plan is amended and restated as follows:

8.5 Amendment or Termination. Subject to the provisions of Section 8.4 and 8.12, the Company reserves the right to amend, modify, suspend or terminate the Plan at any time by action of its Board or of the Compensation Committee of its Board; provided that no prior notice to any Participant shall be required, and provided further, that no such action may deprive a Participant of his rights to receive a benefit pursuant to the Plan with respect to compensation deferred prior to such action. However, if a Change in Control occurs, notwithstanding the foregoing, during the period of three years that follows such Change in Control, no amendment, modification, suspension or termination shall be effective unless, (a) such amendment, modification, suspension, or termination is consented to by all Participants, or (b) such action is required in order to comply with Section 409A of the Code or other applicable law.

WITNESS WHEREOF, Brush Engineered Materials Inc. has caused this Amendment to be executed by its duly authorized officer this 28th day of July, 2009.

BRUSH ENGINEERED MATERIALS INC.

By: /s/ Michael C. Hasychak

Name: Michael C. Hasychak

Title: Vice President, Treasurer and Secretary

BRUSH ENGINEERED MATERIALS INC. AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS

	Second Quarter Ended		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Basic:				
Average shares outstanding	20,186,000	20,399,000	20,159,000	20,394,000
Net (Loss) Income	\$ (785,000)	\$ 7,158,000	\$ (8,930,000)	\$11,754,000
Per share amount	\$ (0.04)	\$ 0.35	\$ (0.44)	\$ 0.58
Diluted:				
Average shares outstanding	20,186,000	20,399,000	20,159,000	20,394,000
Dilutive stock securities based on the treasury stock method using average market price	—	254,000	—	232,000
Totals	20,186,000	20,653,000	20,159,000	20,626,000
Net (Loss) Income	\$ (785,000)	\$ 7,158,000	\$ (8,930,000)	\$11,754,000
Per share amount	\$ (0.04)	\$ 0.35	\$ (0.44)	\$ 0.57

Under SFAS No. 128, "Earnings per Share," no potential common shares are included in the computation of diluted per share amounts when a loss from continuing operations exists. Accordingly, dilutive securities have been excluded from the diluted per share calculation in the amounts of 132,000 for the second quarter ended July 3, 2009 and 116,000 for the six months ended July 3, 2009.

CERTIFICATIONS

I, Richard J. Hipple, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Brush Engineered Materials Inc. (the “registrant”);
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- 4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
- 5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 11, 2009

/s/ Richard J. Hipple

Richard J. Hipple
Chairman, President and Chief Executive Officer

CERTIFICATIONS

I, John D. Grampa, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Brush Engineered Materials Inc. (the “registrant”);
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
- 5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 11, 2009

/s/ John D. Grampa

John D. Grampa
Senior Vice President Finance and
Chief Financial Officer

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q of Brush Engineered Materials Inc. (the "Company") for the quarter ended July 3, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, that, to such officer's knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)), and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: August 11, 2009

/s/ Richard J. Hipple

Richard J. Hipple
Chairman of the Board, President and Chief
Executive Officer

/s/ John D. Grampa

John D. Grampa
Senior Vice President Finance and
Chief Financial Officer