

BRUSH ENGINEERED MATERIALS INC

Form DEF 14A

March 16, 2007

**Table of Contents**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**SCHEDULE 14A**

(Rule 14a-101)

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by**

**Rule 14a-6(e)(2))**  Definitive Proxy Statement  Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

BRUSH ENGINEERED MATERIALS INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

\_\_\_\_\_

(2) Aggregate number of securities to which transaction applies:

\_\_\_\_\_

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

\_\_\_\_\_

(4) Proposed maximum aggregate value of transaction:

\_\_\_\_\_

(5) Total fee paid:

\_\_\_\_\_

Fee paid previously with preliminary materials.

## Edgar Filing: BRUSH ENGINEERED MATERIALS INC - Form DEF 14A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

**TABLE OF CONTENTS**

GENERAL INFORMATION

1. ELECTION OF DIRECTORS

CORPORATE GOVERNANCE: COMMITTEES OF THE BOARD OF DIRECTORS

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

AUDIT COMMITTEE REPORT

2. RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SHAREHOLDER PROPOSALS

OTHER MATTERS

---

**Table of Contents**

**Brush Engineered Materials Inc.  
17876 St. Clair Avenue  
Cleveland, Ohio 44110**

**Notice of Annual Meeting of Shareholders**

The annual meeting of shareholders of Brush Engineered Materials Inc. will be held at The Forum, One Cleveland Center, 1375 East Ninth Street, Cleveland, Ohio 44114, on May 1, 2007 at 11:00 a.m., local time, for the following purposes:

- (1) To elect three directors, each to serve for a term of three years and until a successor is elected and qualified;
- (2) To ratify Ernst & Young LLP as independent registered public accounting firm for Brush Engineered Materials Inc. for the year 2007; and
- (3) To transact any other business that may properly come before the meeting.

Shareholders of record as of the close of business on March 2, 2007 are entitled to notice of the meeting and to vote at the meeting or any adjournment or postponement of the meeting.

Michael C. Hasychak  
Secretary

March 16, 2007

**Important your proxy is enclosed.**

**Please sign, date and return your proxy in the accompanying envelope.**

---

**Table of Contents**

**BRUSH ENGINEERED MATERIALS INC.  
17876 St. Clair Avenue  
Cleveland, Ohio 44110**

**PROXY STATEMENT  
March 16, 2007**

**GENERAL INFORMATION**

Your Board of Directors is furnishing this proxy statement to you in connection with our solicitation of proxies to be used at our annual meeting of shareholders to be held on May 1, 2007.

If you sign and return the enclosed proxy card, your shares will be voted as indicated on the card. Without affecting any vote previously taken, you may revoke your proxy by delivery to us of a new, later dated proxy with respect to the same shares, or by giving written notice to us before or at the annual meeting. Your presence at the annual meeting will not, in and of itself, revoke your proxy.

At the close of business on March 2, 2007, the record date for the determination of shareholders entitled to notice of, and to vote at, the annual meeting, we had outstanding and entitled to vote 20,369,124 shares of common stock.

Each outstanding share of common stock entitles its holder to one vote on each matter brought before the meeting. Under Ohio law, shareholders have cumulative voting rights in the election of directors, provided that the shareholder gives not less than 48 hours notice in writing to the President, any Vice President or the Secretary of Brush Engineered Materials Inc. that the shareholder desires that voting at the election be cumulative, and provided further that an announcement is made upon the convening of the meeting informing shareholders that notice requesting cumulative voting has been given by the shareholder. When cumulative voting applies, each share has a number of votes equal to the number of directors to be elected, and a shareholder may give all of the shareholders' votes to one nominee or divide the shareholders' votes among as many nominees as he or she sees fit. Unless contrary instructions are received on proxies given to us, in the event that cumulative voting applies, all votes represented by the proxies will be divided evenly among the candidates nominated by the Board of Directors, except that if voting in this manner would not be effective to elect all the nominees, the votes will be cumulated at the discretion of the Board of Directors so as to maximize the number of the Board of Directors' nominees elected.

In addition to the solicitation of proxies by the use of the mails, we may solicit the return of proxies in person and by telephone, telecopy or e-mail. We will request brokerage houses, banks and other custodians, nominees and fiduciaries to forward soliciting material to the beneficial owners of shares and will reimburse them for their expenses. We will bear the cost of the solicitation of proxies.

At the annual meeting, the inspectors of election appointed for the meeting will tabulate the results of shareholder voting. Under Ohio law, our articles of incorporation and our code of regulations, properly signed proxies that are marked "abstain" or are held in "street name" by brokers and not voted on one or more of the items before the meeting will, if otherwise voted on at least one item, be counted for purposes of determining whether a quorum has been achieved at the annual meeting. Votes withheld in respect of the election of directors will not be counted in determining the election of directors. Abstentions and broker non-votes in respect of Item 2 will not be considered as votes cast for purposes of determining whether those matters are approved.

**Table of Contents**

**1. ELECTION OF DIRECTORS**

Our articles of incorporation and code of regulations provide for three classes of directors whose terms expire in different years. There are currently nine directors. At the present time it is intended that proxies will be voted for the election of Joseph P. Keithley, William R. Robertson and John Sherwin, Jr.

**Your Board of Directors recommends a vote for these nominees.**

If any of these nominees becomes unavailable, it is intended that the proxies will be voted as the Board of Directors determines. We have no reason to believe that any of the nominees will be unavailable. The three nominees receiving the greatest number of votes will be elected as directors of Brush Engineered Materials.

The following table sets forth information concerning the nominees and the directors whose terms of office will continue after the meeting:

**Directors Whose Terms End in 2010**

**Current Employment**

Joseph P. Keithley  
 Director since 1997  
 Member Audit Committee, Governance and Organization  
 Committee and Retirement Plan Review Committee  
 Age 58

Chairman, Chief Executive Officer and  
 President,  
 Keithley Instruments, Inc.  
 (Electronic test and measurement products)

Mr. Keithley has been Chairman of the Board of Keithley Instruments, Inc. since 1991. He has served as Chief Executive Officer of Keithley Instruments, Inc. since November 1993 and as its President since May 1994. He is a director of Keithley Instruments, Inc. and Nordson Corporation.

William R. Robertson  
 Director since 1997  
 Member Audit Committee and Governance and  
 Organization Committee  
 Age 65

Retired Partner,  
 Kirtland Capital Partners  
 (Private equity investments)

Mr. Robertson retired as a Partner of Kirtland Capital Partners on December 31, 2006. Prior to his retirement, he was a Consulting Partner since August 2005 and from September 1997 through August 2005 he was a Managing Partner of Kirtland Capital. He was President and a director of National City Corporation (diversified financial holding company) from October 1995 until July 1997. He also served as Deputy Chairman and a director of National City Corporation from August 1988 until October 1995. Mr. Robertson is a member of the Board of Managers of the Prentiss Foundation, a member of the Board of Trustees of the Cleveland Museum of Art and serves as a director of Hartland & Co.

John Sherwin, Jr.  
 Director since 1981 (Lead Director since 2005)  
 Member Compensation Committee, Governance and  
 Organization Committee and Retirement Plan Review  
 Committee  
 Age 68

President,  
 Mid-Continent Ventures, Inc.  
 (Venture capital company)

Mr. Sherwin has been President of Mid-Continent Ventures, Inc. during the past five years. Mr. Sherwin is a director of John Carroll University, an advisor to Shorebank Cleveland and a trustee of The Cleveland Clinic Foundation.



**Table of Contents**

**Directors Whose Terms End in 2008**

**Current Employment**

Albert C. Bersticker  
 Director since 1993  
 Member Compensation Committee, Governance and  
 Organization Committee and Retirement Plan Review  
 Committee  
 Age 72

Retired Chairman and Chief Executive Officer,  
 Ferro Corporation  
 (Paint, varnishes, lacquers, enamels and  
 allied products)

Mr. Bersticker had served as Non-executive Chairman of Oglebay Norton Company from May 2003 until January 2005. Mr. Bersticker was Chairman of Ferro Corporation from February 1996 and retired in 1999. He served as Chief Executive Officer of Ferro Corporation from 1991 until January of 1999 and as its President from 1988 until February 1996. He also had served as Secretary, Treasurer and a member of the Board of Directors of St. John's Medical Center in Jackson, Wyoming until January 2005.

William G. Pryor  
 Director since 2003  
 Member Audit Committee, Governance and Organization  
 Committee and Retirement Plan Review Committee  
 Age 67

Retired President,  
 Van Dorn Demag Corporation  
 Former President & CEO  
 Van Dorn Corporation  
 (Plastic injection molding equipment)

Mr. Pryor was President of Van Dorn Demag Corporation from 1993 and retired in 2002. He had also served as President and Chief Executive Officer of Van Dorn Corporation, predecessor to Van Dorn Demag Corporation. Mr. Pryor served on the Board of Directors of Oglebay Norton Company from 1997 until January 2005.

N. Mohan Reddy, Ph.D.  
 Director since 2000  
 Member Compensation Committee and Governance and  
 Organization Committee  
 Age 53

Dean and Albert J. Weatherhead III  
 Professor of Management,  
 Weatherhead School of Management  
 Case Western Reserve University

Dr. Reddy was appointed Dean of the Weatherhead School of Management, Case Western Reserve University effective January 1, 2007. Prior to that, Dr. Reddy had been a professor at the Weatherhead School of Management, Case Western Reserve University for the past five years. Dr. Reddy is a director of Keithley Instruments, Inc. Dr. Reddy also serves as consultant to firms in the electronic and semiconductor industries, primarily in the areas of product and market development.

**Table of Contents**

**Directors Whose Terms End in 2009**

**Current Employment**

Richard J. Hipple  
Age 54

Chairman, President and Chief Executive Officer,  
Brush Engineered Materials Inc.

In May 2006, Mr. Hipple was named Chairman of the Board and Chief Executive Officer of Brush Engineered Materials Inc. He has served as President since May of 2005. He was Chief Operating Officer from May 2005 until May 2006. Mr. Hipple was President of Alloy Products from May 2002 until May 2005. He joined the Company in July 2001 as Vice President of Strip Products and served in that position until May of 2002. Prior to joining Brush, Mr. Hipple was President of LTV Steel Company, a business unit of the LTV Corporation.

William B. Lawrence  
Director since 2003  
Member Audit Committee and  
Governance and Organization Committee  
Age 62

Former Executive Vice President,  
General Counsel & Secretary,  
TRW, Inc.  
(Advanced technology products and services)

Prior to the sale of TRW, Inc. to Northrop Grumman Corporation in December 2002, Mr. Lawrence served as TRW's Executive Vice President, General Counsel and Secretary since 1997 and held various other executive positions at TRW since 1976. Mr. Lawrence also serves on the Board of Directors of Ferro Corporation.

William P. Madar  
Director since 1988  
Member Compensation Committee and Governance and  
Organization Committee  
Age 67

Retired Chairman of the Board  
and Former Chief Executive Officer  
Nordson Corporation  
(Industrial application equipment manufacturer)

Mr. Madar retired as Chairman of the Board of Nordson Corporation effective March 2004. He had been Chairman since 1997. Prior to that time, he served as Vice Chairman of Nordson Corporation from August 1996 until October 1997 and as Chief Executive Officer from February 1986 until October 1997. From February 1986 until August 1996, he also served as its President. He is a director of Nordson Corporation and Lubrizol Corporation.

**Table of Contents**

**CORPORATE GOVERNANCE; COMMITTEES OF THE BOARD OF DIRECTORS**

We have adopted a Policy Statement on Significant Corporate Governance Issues and a Code of Conduct Policy in compliance with New York Stock Exchange and Securities and Exchange Commission requirements. These materials, along with the charters of the Audit, Compensation, Governance and Organization and Retirement Plan Review Committees of our Board of Directors, which also comply with applicable requirements, are available on our website at [www.beminc.com](http://www.beminc.com), or upon request by any shareholder to Secretary, Brush Engineered Materials Inc., 17876 St. Clair Avenue, Cleveland, Ohio 44110. We also make our reports on Forms 10-K, 10-Q and 8-K available on our website, free of charge, as soon as reasonably practicable after these reports are filed with the Securities and Exchange Commission. Any amendments or waivers to our Code of Conduct Policy, Committee Charters and Policy Statement on Significant Corporate Governance Issues will also be made available on our website. The information on our website is not incorporated by reference into this proxy statement or any of our periodic reports.

*Board Independence*

The New York Stock Exchange listing standards require that all listed companies have a majority of independent directors. For a director to be independent under the New York Stock Exchange listing standards, the board of directors of a listed company must affirmatively determine that the director has no material relationship with the company, or its subsidiaries or affiliates, either directly or as a partner, shareholder or officer of an organization that has a relationship with the company or its subsidiaries or affiliates. Our Board of Directors has adopted the following standards, which are identical to those of the New York Stock Exchange listing standards, to assist it in its determination of director independence; a director will be determined *not* to be independent under the following circumstances:

The director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer, of the Company;

The director has received, or has an immediate family member who has received, during any 12-month period within the last three years, more than \$100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

(a) The director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; (b) the director is a current employee of such a firm; (c) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (d) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time;

The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee; or

The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1,000,000, or two percent of such other company's consolidated gross revenues.

Our Board of Directors has affirmatively determined that each of our directors, other than Mr. Hipple, is independent within the meaning of that term as defined in the New York Stock Exchange listing standards; a non-employee director within the meaning of that term as defined in Rule 16b-3(b)(3) promulgated under the Securities Exchange Act of 1934 (the Exchange Act ); and an outside director within the meaning of that term as defined in the regulations promulgated under Section 162(m) of the Internal Revenue Code of 1986.

## **Table of Contents**

### *Charitable Contributions*

Within the last three years, we have made no charitable contributions during any single fiscal year to any charity in which an independent director serves as an executive officer, of over the greater of \$1 million or 2% of the charity's consolidated gross revenues.

### *Non-management Directors*

Our Policy Statement on Significant Corporate Governance Issues provides that the non-management members of the Board of Directors will meet during each regularly scheduled meeting of the Board of Directors. Presently Mr. John Sherwin, Jr., is the lead non-management director.

In addition to the other duties of a director under the Corporation's Board Governance Principles, the Lead Director, in collaboration with the other independent directors, is responsible for coordinating the activities of the independent directors, and in that role will:

- chair the executive sessions of the independent directors at each regularly scheduled meeting;
- make recommendations to the Board Chairman regarding the timing and structuring of Board meetings;
- make recommendations to the Board Chairman concerning the agenda for Board meetings, including allocation of time as well as subject matter;
- advise the Board Chairman as to the quality, quantity and timeliness of the flow of information from management to the Board;
- serve as the independent point of contact for shareholders wishing to communicate with the Board other than through management;
- interview all Board candidates, and provide the Governance and Organization Committee with recommendations on each candidate;
- maintain close contact with the Chairman of each standing committee and assist in ensuring communications between each committee and the Board;
- lead the CEO evaluation process; and
- be the ombudsman for the CEO to provide two-way communication with the Board.

### *Board Communication*

Shareholders or other interested parties may communicate with the Board of Directors as a whole, the lead non-management director or the non-management directors as a group, by forwarding relevant information in writing to Lead Director, c/o Secretary, Brush Engineered Materials Inc., 17876 St. Clair Avenue, Cleveland, Ohio 44110. Any other communication to individual directors or committees of the Board of Directors may be similarly addressed to the appropriate recipients, c/o our Secretary.

### *Audit Committee*

The Audit Committee held six meetings in 2006. In March 2007, a revised charter for the Audit Committee was adopted. The Audit Committee membership consists of Mr. Robertson, as Chairman, and Messrs. Keithley, Lawrence and Pryor. Under the Audit Committee Charter, the Audit Committee's principal functions include assisting our Board of Directors in fulfilling its oversight responsibilities with respect to:

the integrity of our financial statements and our financial reporting process;

compliance with ethics policies and legal and other regulatory requirements;

our independent registered public accounting firm's qualifications and independence;

**Table of Contents**

our systems of internal accounting and financial controls; and

the performance of our independent registered public accounting firm and of our internal audit functions.

We currently do not limit the number of audit committees on which our Audit Committee members may sit. No member of our Audit Committee serves on the audit committee of three or more public companies in addition to ours. The Audit Committee also prepared the Audit Committee report included under the heading Audit Committee Report in this proxy statement.

*Audit Committee Expert, Financial Literacy and Independence*

Although our Board of Directors has determined that more than one member of the Audit Committee has the accounting and related financial management expertise to be an audit committee financial expert, as defined by the Securities and Exchange Commission, it has named the Audit Committee Chairman, Mr. Robertson, and Mr. Lawrence, as the Audit Committee financial experts. Each member of the Audit Committee is financially literate and each member of the Audit Committee satisfies the heightened independence requirements in Section 303A.02 of the New York Stock Exchange listing standards.

*Compensation Committee*

The Compensation Committee held six meetings in 2006. Its membership consists of Dr. Reddy as Chairman, and Messrs. Bersticker, Madar and Sherwin. The committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee; provided that such subcommittee has a published charter in accordance with the rules of the New York Stock Exchange. In particular, the committee may delegate the approval of certain transactions to a subcommittee consisting solely of members of the committee who are (a) Non-Employee Directors for the purposes of Rule 16b-3 of the Securities Exchange Act of 1934, as in effect from time to time, and (b) outside directors for the purposes of Section 162(m) of the Internal Revenue Code. The committee's principal functions include:

reviewing and approving executive compensation, including severance payments;

administering and recommending equity and non-equity incentive plans;

overseeing regulatory compliance with respect to compensation matters;

advising on senior management compensation; and

reviewing and discussing the Compensation Discussion and Analysis and Compensation Committee Report.

For additional information regarding the operation of the Compensation Committee, see Compensation Discussion and Analysis in this proxy statement.

*Governance and Organization Committee*

The Governance and Organization Committee held four meetings in 2006. The Governance and Organization Committee membership consists of Mr. Sherwin, as Chairman, and Messrs. Bersticker, Keithley, Lawrence, Madar, Pryor, Reddy and Robertson. All the members are independent in accordance with the New York Stock Exchange listing requirements. Its principal functions include:

evaluation of candidates for board membership, including any nominations of qualified candidates submitted in writing by shareholders to our Secretary;

making recommendations to the full Board of Directors regarding directors' compensation;

making recommendations to the full Board of Directors regarding governance matters;



**Table of Contents**

overseeing the evaluation of the Board and management of the Company; and

assisting in management succession planning.

As noted above, the Governance and Organization Committee is involved in determining compensation for our Directors. The Governance and Organization Committee administers our equity incentive plans with respect to our directors, including approval of grants of stock options and other equity or equity-based awards, and makes recommendations to the Board with respect to incentive compensation plans and equity-based plans for directors. The Governance and Organization Committee periodically reviews director compensation in relation to comparable companies and other relevant factors. Any change in director compensation must be approved by the Board of Directors. Other than in his capacity as a director, no executive officer other than the Chief Executive Officer participates in setting director compensation. From time to time, the Governance and Organization Committee or the Board of Directors may engage the services of a compensation consultant to provide information regarding director compensation at comparable companies.

*Nomination of Director Candidates*

The Governance and Organization Committee will consider candidates recommended by shareholders for nomination as directors of Brush Engineered Materials. Any shareholder desiring to submit a candidate for consideration by the Governance and Organization Committee should send the name of the proposed candidate, together with biographical data and background information concerning the candidate, to the Governance and Organization Committee, c/o our Secretary. The Governance and Organization Committee did not receive any recommendation for a candidate from a shareholder or shareholder group as of March 2, 2007.

In recommending candidates to the Board of Directors for nomination as directors, the Governance and Organization Committee's charter requires it to consider such factors as it deems appropriate, consistent with our Policy Statement on Significant Corporate Governance Issues. These factors are as follows:

broad-based business, governmental, non-profit, or professional skills and experiences that indicate whether the candidate will be able to make a significant and immediate contribution to the Board's discussion and decision-making in the array of complex issues facing the Company;

exhibited behavior that indicates he or she is committed to the highest ethical standards and the values of the Company;

special skills, expertise, and background that add to and complement the range of skills, expertise, and background of the existing Directors;

whether the candidate will effectively, consistently, and appropriately take into account and balance the legitimate interests and concerns of all our shareholders and other stakeholders in reaching decisions; and

a global business and social perspective, personal integrity, and sound judgment. In addition, directors must have time available to devote to Board activities and to enhance their knowledge of the Company.

The Governance and Organization Committee's evaluation of candidates recommended by shareholders does not differ materially from its evaluation of candidates recommended from other sources.

A shareholder of record entitled to vote in an election of directors who timely complies with the procedures set forth in our code of regulations and with all applicable requirements of the Exchange Act and the rules and regulations thereunder, may also directly nominate individuals for election as directors at a shareholders meeting. Copies of our code of regulations are available by a request addressed to our Secretary.

To be timely, notice of a shareholder nomination for an annual meeting must be received at our principal executive offices not fewer than 60 nor more than 90 days prior to the date of the annual meeting. However, if the date of the meeting is more than one week before or after the first anniversary of the previous year's meeting and we do not give notice of the meeting at least 75 days in advance, nominations must be received within ten days from the date of our notice.

**Table of Contents**

*Retirement Plan Review Committee*

The Retirement Plan Review Committee held three meetings in 2006. Its membership consists of Mr. Keithley, as Chairman, and Messrs. Bersticker, Pryor and Sherwin. Its principal functions include:

reviewing defined benefit pension plans as to current and future costs, funded position, and actuarial and accounting assumptions used in determining benefit obligations;

establishing and reviewing policies and strategies for the investment of defined benefit pension plan assets; and

reviewing investment options offered under employee savings plans and the performance of those investment options.

*Board Attendance*

Our Board of Directors held six meetings in 2006. All of the directors attended at least 75% of the Board and assigned committee meetings during 2006. Our policy is that directors are expected to attend all meetings, including the annual meeting of shareholders. All of our directors attended last year's annual meeting of shareholders.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

None of the individuals who served as members of the Compensation Committee of the Board of Directors in 2006 was or has been an officer or employee of ours or engaged in transactions with us (other than in his capacity as director).

None of our officers serve as a director or member of the compensation committee of another entity, one of whose executive officers serves as a member of the Compensation Committee or a director of Brush Engineered Materials.

**Table of Contents****2006 DIRECTOR COMPENSATION**

Annual compensation for Non-employee Directors for 2006 was comprised of the following components: cash compensation, consisting of annual retainer fees and equity compensation, consisting of Restricted Stock Units. Each of these components is described in more detail below.

Name	Fees Earned or Paid in		Stock Awards(2)	Total
	Cash(1)			
	(\$)		(\$)	(\$)
Albert Bersticker	33,250		30,006	63,256
Joseph Keithley	39,875		30,006	69,881
William Lawrence	34,875		30,006	64,881
William Madar	31,542		30,006	61,548
William Pryor	34,875		30,006	64,881
N. Mohan Reddy	34,875		30,006	64,881
William Robertson	40,876		30,006	70,882
John Sherwin, Jr.	46,542		30,006	76,548

The columns entitled "Option Awards", "Incentive Plan Compensation", "Deferred Compensation Earnings" and "All Other Compensation" to this table have been omitted because no compensation was reportable thereunder.

- (1) Pursuant to the 2006 Non-employee Director Equity Plan, Messrs. Bersticker, Keithley, Robertson and Reddy elected to defer 100% of their compensation in the form of Deferred Stock Units.
- (2) Values shown here for each director consist of that portion of compensation expense taken by Brush Engineered Materials Inc. in its 2006 financial statements for equity-based compensation grants to that director. See footnote K to the 2006 consolidated financial statements. These expenses relate to the 1,873 restricted stock units awarded automatically on the day following the 2006 annual meeting to each director pursuant to the Brush Engineered Materials Inc. 2006 Non-employee Director Equity Plan. As of December 31, 2006 the aggregate number of stock awards subject to forfeiture, and the aggregate number of stock options outstanding, were as follows:

	Stock Options	Restricted Stock Units
Mr. Bersticker	10,000	1,873
Mr. Keithley	10,000	1,873
Mr. Lawrence	9,000	1,873
Mr. Madar	10,000	1,873
Mr. Pryor	9,000	1,873
Mr. Reddy	15,000	1,873
Mr. Robertson	7,000	1,873
Mr. Sherwin	10,000	1,873

**Annual Retainer Fees**

Effective May 2, 2006, non-employee directors receive an annual retainer fee in the amount of \$45,000. Non-employee directors who chair a committee receive an additional \$5,000 annually, with the exception of the Chairman of the Audit Committee, who receives an additional \$10,000 annually. The Lead Director receives an additional \$15,000 annually. Members of the Audit Committee, with the exception of the Chairman, receive an additional \$5,000 annually.

Prior to the increases in May of 2006, Non-employee directors received an annual retainer fee of \$16,500. The Chairman of each committee, if not an officer, received an additional \$5,000 annually and the

**Table of Contents**

Chairman of the Audit Committee received an additional \$8,000 annually. In addition, each director who is not an officer of Brush Engineered Materials Inc. received a meeting fee of \$23,750 annually.

**Equity Compensation**

Under the Brush Engineered Materials Inc. 2006 Non-employee Director Equity Plan, (the 2006 Director Plan ), non-employee directors who continue to serve as a director following the 2006 annual meeting of shareholders receive \$45,000 worth of Restricted Stock Units, which will be paid out in common shares at the end of a one-year restriction period unless the participant elects that the shares be received in the form of Deferred Stock Units. These Restricted Stock Units are automatically granted on the day following the annual meeting. At the time of the 2006 grant, the Fair Market Value was defined by the plan as the average of our high and low common stock prices on the day of the grant. The first amendment to the 2006 Director Plan changed the definition of Fair Market Value to the closing price of the common stock. In the event a new director is elected or appointed, common shares will be granted on the first business day following the election or appointment to the Board. This grant of common shares will be equal to \$100,000 divided by the closing price of a common share on the day the director is elected or appointed to the Board.

**Deferred Compensation**

Non-employee directors may defer all or a part of the annual retainer fees under the 2006 Director Plan until ceasing to be a member of the Board. A director may also elect to have Restricted Stock Units or other stock awards made under the 2006 Director Plan deferred in the form of Deferred Stock Units.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of February 28, 2007, information with respect to the beneficial ownership of our common shares by each person known by us to be the beneficial owner of more than 5% of our common shares, by each present director, by executive officers and by all of our directors and executive officers as a group. Unless otherwise indicated in the note to this table, the shareholders listed in the table have sole voting and investment power with respect to shares beneficially owned by them. Shares that are subject to stock options that may be exercised within 60 days of February 28, 2007 are reflected in the number of shares shown and in computing the percentage of our common shares beneficially owned by the person who owns those options.

<b>Non-Officer Directors</b>	<b>Number of Shares</b>	<b>Percent of Class</b>
Albert C. Bersticker	38,818 (1)(2)	*
Joseph P. Keithley	17,260 (1)(2)	*
William B. Lawrence	11,873 (1)(2)	*
William P. Madar	39,062 (1)(2)	*
William G. Pryor	11,873 (1)(2)	*
N. Mohan Reddy	21,329 (2)	*
William R. Robertson	12,162 (2)(3)	*
John Sherwin, Jr.	22,198 (1)(2)(4)	*
<b><u>Named Executive Officers</u></b>		
Richard J. Hipple	85,895 (1)	*
John D. Grampa	97,345 (1)	*
Daniel A. Skoch	88,101 (1)	*
All directors and executive officers as a group (including the Named Executive Officers) (11 persons)	445,916 (5)	2.2%
<b><u>Other Persons</u></b>		
Jeffrey Gendell, et al. 55 Railroad Ave., 3rd Floor Greenwich, CT 06830	2,361,000 (6)	11.6%
Bear Stearns Asset Management Inc 383 Madison Avenue NY, NY 10179	1,331,835 (7)	6.6%
Barclays Global Investors, N.A., et al. 45 Fremont St. San Francisco, CA 94105	1,032,261 (8)	5.1%

\* Less than 1% of the common shares.

- (1) Includes shares covered by outstanding options exercisable within 60 days as follows: Mr. Hipple 27,000; Mr. Grampa 72,000 and Mr. Skoch 64,500; 10,000 for both Messrs. Bersticker and Madar; 9,000 for both Messrs. Lawrence and Pryor; 6,000 for Mr. Keithley and 4,000 for Mr. Sherwin. The shares for Messrs. Hipple, Grampa and Skoch also include performance restricted shares issued under the 2006-2008 and the 2007-2009 Long-term Incentive Plans (LTIP) in the amounts of 48,971; 16,126 and 15,857, respectively. See the Compensation Discussion and Analysis (CD&A) on page 14 for further discussion of these plans.

- (2) Includes deferred shares under the Deferred Compensation Plans for Non-employee Directors as follows:  
Mr. Bersticker 12,817; Mr. Keithley 9,387; Mr. Lawrence 1,000; Mr. Madar 25,989; Mr. Pryor 1,000;  
Dr. Reddy 19,446; Mr. Robertson 9,789 and Mr. Sherwin 7,101.
- (3) Includes 500 shares owned by Mr. Robertson s wife of which Mr. Robertson disclaims beneficial ownership.
- (4) Includes 1,429 shares owned by Mr. Sherwin s children of which Mr. Sherwin disclaims beneficial ownership.



**Table of Contents**

- (5) Includes 120,700 shares subject to outstanding options held by officers and directors and exercisable within 60 days.
- (6) According to an Amendment No. 3 to Schedule 13G filed with the Securities and Exchange Commission on August 18, 2006, Jeffrey Gendell, Tontine Capital Partners, L.P., Tontine Capital Management, L.L.C., Tontine Partners, L.P., Tontine Management, L.L.C. and Tontine Overseas Associates, L.L.C. had beneficial ownership with respect to 2,361,000 shares. Tontine Management, L.L.C. is the general partner of Tontine Partners, L.P. Tontine Capital Management, L.L.C. is the general partner of Tontine Capital Partners, L.P. Tontine Overseas Associates, L.L.C. serves as the investment manager to Tontine Capital Overseas Master Fund. L.P. and Tontine Overseas Fund Ltd. Mr. Gendell is the managing member of Tontine Management, L.L.C., Tontine Management, L.L.C. and Tontine Overseas Associates, L.L.C., and in that capacity directs their operations.
- (7) Bear Stearns Asset Management, Inc. reported on a Schedule 13G filed with the Securities and Exchange Commission on February 13, 2007 that as of December 31, 2006, it had beneficial ownership with respect to 1,331,835 shares.
- (8) Barclays Global Investors, N.A., Barclays Global Fund Advisors, Barclays Global Investors, Ltd., Barclays Global Investors Japan Trust and Banking Company Limited and Barclays Global Investors Japan Limited reported on a Schedule 13G filed with the Securities and Exchange Commission on January 23, 2007 that as of December 31, 2006, they had beneficial ownership with respect to 1,032,261 shares.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and officers and persons who own 10% or more of our common stock to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission. Directors, officers and 10% or greater shareholders are required by Securities and Exchange Commission regulations to furnish us with copies of all Forms 3, 4 and 5 they file.

Based solely on our review of copies of forms that we have received, and written representations by our directors, officers and 10% or greater shareholders, all of our directors, officers and 10% or greater shareholders complied with all filing requirements applicable to them with respect to transactions in our equity securities during the fiscal year ended December 31, 2006.

**Table of Contents**

**EXECUTIVE COMPENSATION**

**COMPENSATION DISCUSSION AND ANALYSIS**

**Objectives of Executive Compensation Program**

We reward our executives for both group and individual performance in their specific roles within Brush based on improved financial results from one year to the next. The objectives of the compensation program are (1) to provide incentives for short-term and sustainable profitability, while generating long-term value growth for shareholders and (2) to provide a standard, competitive compensation and benefits package that allows us to compete for the executive talent we need for our long-term success.

**Total Compensation Philosophy Pay for Performance**

We met the first objective by following a philosophy of providing a compensation package intended to provide above-average total compensation for above-target performance, and lower total compensation for less-than-target performance. We implemented this philosophy by providing each executive a base pay at or near the median base pay (50th percentile) for similar positions within a group of comparable companies, as described below. We combine this median base pay with a coordinated combination of annual and long-term incentive arrangements that are intended to give each executive the opportunity to earn additional compensation. We generally set minimum, threshold goals at a point where improvement over the immediately preceding year first becomes measurable. Executives may begin to earn additional compensation above these threshold goals.

The Compensation Committee (the Committee) also sets profitability goals and other financial targets (described below) above threshold measures. Among these measures are targets designed to approximate our average expected performance. Within the pay philosophy, when those targets are reached, executives earn incentive rewards that are designed to be part of a competitive total pay package. The Committee also sets subjective, but measurable, individual task and performance goals that, if met, will result in payment of another part of the competitive total pay package.

Once threshold financial performance is achieved, the rewards for the executives accomplishing the targeted levels of Brush, team and individual performance, when combined with their median base pay, will provide them total compensation that approximates the median (50th percentile) total pay for similar executive positions in comparable companies. However, if group profitability and other financial measures exceed the target levels set by the Committee, executives will earn additional rewards that will make their total compensation for the year above the median for comparable company executives.

At the same time, the Committee designed the compensation program so that executives receive no additions to their median base pay if performance, as measured by our profitability or other financial measures, is below the minimum, threshold expectations, as was the case for most executives in 2005. Most executives received awards in 2006.

Along with base salary and incentive plans designed to be competitive with comparable employers to meet the second overall compensation objective of providing a standard, competitive compensation and benefits package, we provide executives retirement and deferred income accrual opportunities and health, life and other benefit programs.

**Factors Influencing Compensation Decisions**

Compensation decisions were under the authority of an Organization and Compensation Committee, until a new Compensation Committee was formed by the Board, effective May 2, 2006. All the members of the Compensation Committee are independent, non-employee directors. The Committee makes policy and strategy recommendations to

the Board and has authority delegated from the Board to implement executive pay decisions; to design the base pay, incentive pay, and benefits for the top twelve executives, including the named executive officers and to administer our equity incentive plans. The Compensation Committee Charter is available at [www.beminc.com](http://www.beminc.com) by clicking on the Corporate Governance tab at the top of the page.

## **Table of Contents**

The Committee determines compensation elements and performance goals for the named executive officers. To do this, the Committee relies on several resources, including the services of Pearl Meyer & Partners, an independent compensation consultant. In 2006, the consultant performed peer company surveys, extracted relevant data from general published surveys and provided general consulting advice on base and total pay elements. The Committee also relied on the Chief Executive Officer's recommendations of base, incentives, and total pay for the other named executive officers and on similar recommendations by all of the named executive officers for the other nine top executives who are part of the Committee's responsibility. In addition, the Committee reviews compilations of overall compensation element values and totals, budget plans and financial statements, and management reports on our business activities.

### ***Compensation Consultant and Comparative Survey Data***

In 2004 and again in 2006, the Committee retained the services of Pearl Meyer & Partners to conduct a competitive pay analysis for the top twelve Brush executives, including the named executive officers. The Committee approved upper management's request to also use the services of Pearl Meyer & Partners in a similar competitive pay analysis for the next level of top managers beyond the top twelve within the Committee's direct responsibility. In doing so, the Committee determined that providing those services to the upper management did not impair the consultant's independence in its services to the Committee.

In addition to the competitive pay analysis, the Committee retained the compensation consultant to assess the effectiveness of the current long-term incentives for management. The Committee also requested suggestions from the consultant for possible alternative designs for long-term incentives in the context of (i) current market trends, (ii) the implementation of FASB Statement No. 123(R), *Share-based Payment* and (iii) the effect of the cyclical and sometimes unpredictable nature of our businesses on the ability to set performance goals that will be effective over the long term.

Pearl Meyer based the competitive pay analysis, used to set base salary and total pay targets, on two sources of information. First, Pearl Meyer surveyed a selected peer group of companies in 2004 and again in 2006. Second, the consultant provided information from published surveys by Mercer Human Resource Consulting (*U.S. Executive Benchmark Database (2006)*), Watson Wyatt Worldwide (*Top Management Compensation Survey (2006-07)*), and three other private surveys.

The Committee selected the peer group of companies used in the pay analysis with the assistance of the compensation consultant by applying criteria to identify those companies of similar size and complexity and thought to be competitors for the executive talent sought to be retained and rewarded; reported annual revenue of approximately 50% to 200% of our expected revenue for 2007; business-to-business operations, with sales to other companies rather than the ultimate consumer; and a durable-goods manufacturing focus, with an orientation toward specialty products and advanced materials, particularly with an emphasis on consumer electronics.

The resulting group selected consists of: Carpenter Technology Corporation (CRS); Varian Medical Systems, Inc. (VAR); Novellus Systems, Inc. (NVLS); Lone Star Technologies, Inc. (LSS); OM Group, Inc. (OMG); Gibraltar Industries, Inc. (ROCK); Hexcel Corporation (HXL); MEMC Electronic Materials, Inc. (WFR); Linear Technology Corporation (LLTC); Minerals Technologies Inc. (MTX); A. M. Castle & Co. (CAS); RF Micro Devices, Inc. (RFMD); Titanium Metals Corporation (TIE); Ameron International Corporation (AMN); Komag, Incorporated (KOMG); Hutchinson Technology Incorporated (HTCH); Technitrol, Inc. (TNL); Intersil Corporation (ISIL); AMCOL International Corporation (ACO); Coherent, Inc. (COHR); FLIR Systems, Inc. (FLIR); and KEMET Corporation (KEM).

The Committee used the information collected on the peer group of companies and from the published surveys to determine base salary and both annual and long-term award amounts as part of a competitive total pay package. The target for both base pay and total direct pay was the median or the 50th percentile of the companies represented in the published survey data used by the consultant. In addition, the Committee used the median or 50th percentile of total pay among chief executive officers and chief financial officers of the peer group of companies surveyed as an additional checkpoint in determining the appropriate amounts of annual and long-term awards within a total compensation pay opportunity for the executives for target or average performance.

**Table of Contents**

***Management Participation in the Process***

Management plays a significant role in the compensation decision process. The Chief Executive Officer counsels the Committee regarding evaluation of the performance of the named executive officers, other than himself, as well as recommending base salary and stock award levels and performance targets and objectives for both annual and long-term incentives for them. In addition, all the named executive officers provide similar evaluations and recommendations for the other nine members of the top twelve executive group for which the Committee is directly responsible. Furthermore, the named executive officers are responsible for directly managing the compensation programs for the rest of the upper management group beyond the top twelve executives and, in turn, for the rest of Brush. Decisions by the Chief Executive Officer and the other named executive officers regarding compensation elements and performance goals for those other members of upper management are reviewed and approved by the Committee.

***Timing and Context of Compensation Decisions***

Under its charter, the Committee meets as frequently as necessary to carry out its responsibilities. The Committee met five times in 2006, all without management present during executive session.

Compensation decisions generally are finalized in the first quarter of each year, usually in February. In addition to setting base pay, as described below, the Committee establishes goals for each of the named executive officers, consistent with our overall business goals, as set by the Board after a review of performance for the prior year.

Each year's decisions for setting compensation targets for each annual and three-year measuring period are based on our business needs, goals and environment for that year. In making those decisions, in addition to the advice and peer company survey provided by its compensation consultant, the Committee may review financial reports on performance versus budget; status reports of achievement of objectives; estimated grant-date values of proposed stock compensation grants, based on the Black-Scholes valuation methodology where appropriate; worksheets containing summaries of the total compensation of the named executive officers, including base salary, annual and long-term cash and non-cash incentives, equity awards, perquisites and other compensation.

The Committee takes into account specific business issues identified by the Board, by the Chief Executive Officer, and by other members of management in periodic reports to the Board in the setting of specific tasks or issue-oriented goals for each named executive officer and his role.

The Committee annually reviews the strategy for granting compensation opportunities based on our needs. For example, beginning in 2007, the form of restricted share grants will be changed to increase the focus on our stock value growth and to help better ensure the retention of the named executive officers, regardless of whether the business cycle is up, but more importantly, when the business cycle is down. In 2007, restricted share grants will vest after three years of service with us, with the added requirement that the net, after-tax number of vested shares must be held, with limited exceptions, for an additional seven years of service by the named executive officers, before they may be sold or transferred. This approach encourages the executives to stay focused on maximizing the value of those shares for themselves and all other shareholders. These grants will replace half of the value of the stock appreciation rights grants that have been part of the compensation package in the past.

The Committee also sets annual performance goals that are coordinated with a targeted payout, the amount of which is based on competitive pay levels determined from both published surveys and independent survey information described above.

*Accounting and Tax Effects*

The Committee considers both the financial reporting and the taxation of compensation elements in its decision-making process. The Committee seeks a balance between our best interests, fair treatment of the executives, minimizing taxation of the compensation offered to the executive, and maximizing immediate deductibility.

## **Table of Contents**

The Committee reviews the FASB Statement No. 123(R) expense of each stock-based compensation grant made and its impact on earnings per share reported by Brush. As a result, the Committee has limited grants of stock options and stock appreciation rights to only the top twelve executives and has directed the use of more restricted stock grants and increased cash for the rest of management, in part because of the more direct valuation and expensing of those awards.

From the tax perspective, Internal Revenue Code section 409A made the taxation of certain grants more costly to the executives with no offsetting benefit to Brush. In response, the Committee froze the Key Employees Share Option Plan, or KESOP, in 2004, and all grants not vested before 2005 were terminated as permitted under the transition rule in the proposed regulations to Internal Revenue Code section 409A. The Committee established the Executive Deferred Compensation Plan II, which we refer to as EDCP II and is discussed below, to replace the KESOP to deliver that same element of the executives' competitive pay package on a more cost-effective basis for Brush because the benefit is now provided with less tax exposure to the executive under Internal Revenue Code section 409A. In addition, the Committee designed the severance plans for all executives, except the executive officers, to reduce amounts payable that otherwise would have been subject to an excise tax known as excess golden parachute payments as defined under Internal Revenue Code section 280G. The Committee also is aware that Internal Revenue Code section 162(m) limits deductions for compensation paid in excess of \$1 million. In response, the Committee designs much of the total compensation package of the named executive officers to qualify for the exemption of performance-based compensation from the deductibility limit. However, the Committee reserves the possibility that it may choose to design and use compensation elements that may not be deductible within the rules of Internal Code section 162(m), if those elements are in the best interests of Brush.

### **Total Compensation Mix**

As a result of our longstanding pay-for-performance philosophy and policy of paying at the peer group median, the Committee has set current fixed-cash payment in the form of base salary as a smaller part of total compensation, especially for the named executive officers. In turn, a greater portion of the named executives' total pay consists of variable pay through both annual award opportunities in the Management Performance Compensation Plan and overlapping three-year performance award opportunities in the Long-term Incentive Plans, or LTIPs, and through long-term stock-based grants. LTIP grants generally are 50% of the long-term opportunities offered to the named executive officers each year. Generally, stock appreciation rights grants have been the other 50% of these long-term opportunities for the executives. The Committee found the mix of fixed pay to variable pay incentives to be similar to the median of comparable companies in the private and published surveys used in the competitive pay analysis discussed above in Factors Influencing Compensation Decisions. In previous years, we had provided proportionately more cash, both fixed and variable, as well as both annually and over the long term, than the companies in the surveys.

### ***Current and Long-term Cash and Long-term Noncash Mix***

Because of low stock values in past years, the Committee believed at the time that cash was a better motivator and a better means to retain key executives than stock-based programs. As a result, incentives were designed to pay out cash, but only when cash was generated for Brush. Therefore, the LTIP grants put in place before 2005 provided more cash and cash-based compensation opportunities. Since then, LTIPs have provided a larger proportion of awards that are paid in stock or paid in cash, but based on stock value. For example, the 2005-2007 LTIP pays in cash, but the amount of cash is determined by stock value at the time the award is earned. The 2006-2008 LTIP is designed to pay in performance restricted shares for performance up to target level, and in performance shares for performance beyond target. As a result, financial results are still required to earn the awards, but the value of the awards, whether distributed in stock or cash, has become increasingly dependent on stock values.



With the recovery of our stock value, the Committee believes stock is a good motivator for long-term performance and focus for the named executive officers. As a result, more stock-based cash awards were granted in 2005, and more stock and stock-based awards were granted in 2006 and again in 2007. For example, in 2006 and 2007, awards for target long-term performance under the three-year LTIPs beginning in

## **Table of Contents**

those years are in performance restricted shares, which means the value of any payout will be influenced by stock value at the time of the payment. Going forward the mix may include more stock-settled awards to take advantage of the fixed accounting for such awards under FASB Statement No. 123(R). Especially with the recovery of the stock price, we expect that avoiding the variable, mark to market approach for cash-settled awards will be more favorable to our financial statements than cash-paid awards.

The Committee has also changed the portion of the long-term compensation opportunity granted solely in stock appreciation rights in addition to the LTIP grants. Half of the target value of that grant for 2007 will still be in stock appreciation rights, but the other half of that grant will be time-based restricted shares which will vest in three years and be subject to a requirement that the named executives hold the net after tax shares an additional seven years. Beyond this requirement to hold granted shares, we do not have any ownership guidelines or requirements for the named executive officers, so this design element not only helps retain the executives' services, but also more closely ties the rewards of the executive to the interests of the shareholders for a longer period of time than was possible with cash incentives alone. The Committee also intends use of restricted shares to increase the executives' exposure to a loss of value, should the stock value fall below that on the date the shares were granted.

### ***Other Elements in the Compensation Mix***

In addition to fixed, current cash, variable current cash incentives, and long-term cash and stock incentives, we also provide the named executive officers with the basic life, health, and disability benefits provided to all other salaried employees. Beyond those non-cash benefits, we have provided other discretionary annual cash awards in lieu of a supplemental retirement benefit plan for our named executive officers.

Most other peer companies provide a contractual, unfunded promise to provide supplemental retirement benefits that are subject by law to various benefit level and compensation limits. We do not do this. In 2002, we discontinued our Supplemental Retirement Benefit Plan for Mr. Harnett and Mr. Skoch, and in 2004 for Mr. Grampa, in exchange for amounts paid in settlement of our obligation as of that date. As a result, the future retirement benefits provided by us to these executives are limited to the amounts provided by the qualified pension plan. But also unlike those other employers, we do not accrue a liability on our financial records for any obligation to provide any supplemental retirement promises. Nevertheless, to keep competitive in the employment marketplace, the Committee annually reviews our financial position and the actuarial value of any benefits the executives would have accrued, if not for the limits on the qualified plan, and has in its discretion granted special cash awards each year since 2002. More details on these special cash awards are provided below in Executive Compensation Elements.

### ***Severance Payments***

The compensation package of each named executive officer also provides for special payments and accelerated vesting of other compensation opportunities upon termination of employment or in specified circumstances significant reduction of duties or in working conditions. If the executive resigns or his employment is otherwise terminated (other than for cause) at any time up to one month after the anniversary of a change in control, he will receive three-year severance benefits, as described below under Other Potential Post-employment Payments. The executive also will receive these severance benefits if the Board determines that his duties have been significantly reduced or that other changes have occurred negatively affecting his employment conditions within that same time period. The executive also receives these benefits if any such employment change occurs during discussions with any third party that results in a change in control.

Aside from a change in control, as part of a new agreement approved by the Board in 2006, each named executive officer also is provided two-year severance benefits in the event of the executive's involuntary termination of employment by us, other than for cause or gross misconduct, or if he resigns as a result of a reduction in his salary or

incentive pay opportunity, provided that such a reduction in salary or incentive pay opportunity is not part of a general reduction in compensation opportunity for all officers. This agreement was

## **Table of Contents**

adopted at a time of transition to a new CEO. The objective was to help secure the continued employment of each named executive officer through and beyond this time of change.

The Committee believes these agreements are an important part of the total executive compensation mix, because they protect our interest in the continuity and stability of the executive group. The Committee also believes that the change in control agreements reduce the executives' interest in working against a potential change in control and help to keep them focused on minimizing interruptions in business operations by reducing any concerns they may have of being terminated prematurely and without cause during any ownership transition. In exchange, each executive agrees not to compete while employed or for two years after an involuntary termination of employment; not to solicit any employees, agents, or consultants to terminate their relationship with us; and to protect our confidential information. Each executive also assigns to us any intellectual property rights to any discoveries, inventions or improvements made while employed by us or within one year after his employment terminates.

The executives will be entitled to receive either the three-year severance benefits following a change in control or the two-year severance benefits upon an involuntary termination of employment.

Another new agreement feature, for a change in control only, was the adoption by the Board in February 2007 of a gross up provision for the parachute tax under the Internal Revenue Code section 280G. The parachute tax applies to separation compensation beyond a determined cap as defined under 280G. In calculating the cap, average W-2 compensation for the prior five years is used. Due to the fact that the CEO is new to his role and the cap would be determined by his compensation in a lesser capacity, and since the Company has been in a turnaround situation for the past five years, it was decided that a gross up feature was appropriate. However, based upon this logic, the Board also adopted the gross up feature so that it would automatically end in five years.

## **Setting Goals and Performance Measures**

Specifically, the Committee has designed our compensation program primarily to reward efforts of the executives that result in improved financial success for us and secondarily to reward personal and team accomplishments and contributions to that success.

Within the incentive pay structure and beyond the median base salary, both developed with the advice of the compensation consultant, the Committee sets goals for threshold, target and maximum performance that will be rewarded, both annually and over three-year performance periods. As part of its implementation of our overall pay-for-performance philosophy, the Committee has sought to offer incentives related to our performance compared with peer group companies and compared with our performance for the preceding year. At the same time, the Committee also has taken into account the increased need for motivation and retention of senior management. The challenging and controversial regulatory issues and legal disputes we have been facing and the resulting volatile business environment they create make setting and assessing what may be considered reasonable performance goals difficult. Individual and Brush goals are usually set annually in February after consideration of several factors. The Committee reviews our performance for the preceding year, as well as the business environment in general. The Committee also considers management reports of our performance, operations and business opportunities and discusses the strategic needs and direction of Brush with the Chief Executive Officer and the other named executive officers. Equipped with appropriate information and the advice of the independent compensation consultant regarding the practices of comparable companies and the effectiveness of the current incentive plans, the Committee determines objective threshold, target and maximum performance levels for each executive. Threshold performance usually is set at the point at which improvement over the prior year's results begins.

Building from that, the Committee sets performance targets that are estimated to be competitive in the market for the coming year and designed to meet shareholders' expectations for our financial performance. Beyond that, the

Committee sets levels at and beyond which the executives will receive maximum rewards for the measurement period. Rewards earned are determined in a linear measurement from threshold performance at which rewards first may be paid to target performance at which the value of the rewards is set so as to

## **Table of Contents**

contribute to a median or 50th percentile total compensation level. From there, in a linear measurement, performance measures from target to maximum performance and maximum rewards for the executives are set.

These goals have been focused on annual and cumulative operating profit and management of working capital levels for the past few years. The Committee believes these goals are the key factors for our success at this time. Although the Committee makes its best effort in setting these goals for the next year and three-year periods, the volatile nature of the uncontrollable external forces affecting our business environments, such as metal markets and certain regulatory and legal matters associated with our business, make it difficult to assess the probability of achieving those goals from one year to the next.

In addition to our financial goals for both annual and long-term incentives, the Committee sets individual, job-specific goals for each of the named executive officers. These goals are intended to focus the individual executive on tasks important to our success that must be accomplished to some degree in the next year. The accomplishment of these goals is a measurable, objective result. The value of the reward for accomplishing the goal is determined in the discretion of the Committee, subject to Board review. The Committee's determination is based on the quality of the accomplishment of the task and the value of the task, as accomplished, to Brush. The 2006 individual goals for the named executive officers included: improved shareholder value, profitably increasing the size of the company, improving succession planning and organizational development, increasing our Asia business base and improving corporate wide systems.

Reported financial results considered final and conclusive for determining eligibility for an incentive payout are based on the financial statements audited by our independent registered public accounting firm.

## **Executive Compensation Elements**

To meet our objectives and reward executives for demonstrating the desired actions and behaviors, we compensate our executive officers through:

Base salary;

Management Performance Compensation Plan payments;

Long-term Incentive Plans payments;

Stock-based Compensation Grants;

Pension Benefits;

Discretionary monetary awards or bonuses;

Savings and Investment Plan contributions;

Executive Deferred Compensation Plan II contributions;

Health and welfare benefits, such as medical expense reimbursement, health and life insurances, executive physicals, and disability benefits; and

Perquisites, such as club dues and financial planning services.

The following is an explanation of the reasons each pay element is included in the total compensation package of an executive; the intended value, targeted competitive level, and targeted portion of total compensation for each pay element; the reasons behind that targeted value, competitive level, and proportion of total pay; and the interaction, if any, of each pay element with the other pay elements.

***Base Salary***

Effective December 30, 2006, the Committee increased base salary for 2007 from \$500,000 to \$655,000 for Mr. Hipple, as Chairman, President and Chief Executive Officer, from \$289,800 to \$330,000 for Mr. Grampa, as Senior Vice President Finance and Chief Financial Officer, and from \$289,800 to \$315,000 for Mr. Skoch, as Senior Vice President, Administration, to approximate base salary at the median (50th percentile) for similar positions at the companies in the published survey data used. In addition, after considering relevant

## **Table of Contents**

data from those same surveys, as well as Mr. Hipple's promotion in May 2006 to Chief Executive Officer with two additional reports; taking on the additional role of Chairman of the Board also in May 2006; past experience; current job performance and progress; and immediate engagement in the position; the Committee increased his base salary to approximate the median for chief executive officers similarly situated in the surveyed companies.

Base salary directly affects the determination of life and disability benefits, which are set as a multiple of base pay, and is taken into account in the pension benefit formulas and is the base for deferral and matching contribution calculations for retirement benefits. Base salary is also used as the basis for calculating annual incentive awards, as described below, and in calculating payments that may be paid upon a change in control, as described below in Other Potential Post-employment Payments.

### ***Management Performance Compensation Plan***

Annually, we establish performance goals for the Management Performance Compensation Plan for the following year. These goals are generally aggressive. As mentioned above, these goals have not always been met, resulting in no awards being paid out in those years.

The Committee set both objective quantifiable goals and subjective goals for 2006. Objective goals are based solely on financial measures and payouts are calculated as a percentage of base salary, which varies by executive. The target payouts as a percentage of base pay for 2006 were 49% for Mr. Hipple, 40% for Mr. Grampa, and 40% for Mr. Skoch. Results were weighted 85% on achieving targeted levels of operating profit for the entire Company and 15% on reductions in working capital. Payouts for 2006 were at 200% of target, based on operating profit and 163% of target for working capital reductions achieved, for a combined payout of 194%.

The 2006 maximum (200%) operating profit goal was pre-established at \$34.2 million, which was an improvement of 75% over the operating profit of \$19.5 million in 2005. The actual operating profit achieved was \$43.8 million, 125% over the operating profit in 2005. The targeted (100%) average weighted working capital, as a percentage of sales, was 37.2% of sales, which was a reduction of 0.3% below that of 2005. The actual average weighted working capital was 36.8% of sales, which was 0.4% better than the targeted level.

Awards for subjective goals are payable only if threshold financial performance was achieved. Once the threshold financial performance for Brush is achieved, attainment of subjective goals may result in awards equal to up to 14% of base salary and vary relative to the responsibilities of the executive involved and the performance focus desired for the year. For example, goals for the named executive officers might include profitably increasing the size of the company, improving corporate systems and processes, organizational development, growing new markets, etc. Whether and to what level these goals are met and what reward should be assigned to these goals is determined in the discretion of the Committee.

For 2006, all the named executive officers achieved a maximum individual award of 14% by decision of the Committee. These annual awards are considered part of the compensation taken into account in the pension benefit formulas and are the base for deferral and matching contribution calculations for other retirement benefits. They also may affect calculation of payments that may be paid upon a change in control or other potential severance payments, as described below in Other Potential Post-employment Payments, but generally are not designed to affect the value of any other compensation elements of the named executive officers.

### ***Long-term Incentive Plans***

Each year, we establish a three-year performance plan to promote the long-term goals of our business operating units and the cooperation of those units toward achieving the overall Brush goals. The rewards for achieving results under



these overlapping LTIPs vary by each three-year period and by named executive officer. For each executive, however, the LTIP award is designed to provide one-half of the long-term incentive opportunity for target performance for the measuring period. The other half of the long-term

## **Table of Contents**

incentive opportunity is intended to come from stock-based grants, discussed below under Stock-based Compensation Grants.

In 2004, the Committee established a three-year cash LTIP with management objectives based on cumulative operating profit with a performance period from January 1, 2004 through December 31, 2006. As a one-time retention feature, the Committee set separate growth-in-operating-profit targets for two and three years. The targets reached at the end of the second year, December 31, 2005, provided a two-thirds award for the LTIP period that would be banked but paid only at the conclusion of the three-year performance period and only if employment continues through the performance period, excepting disability, death or retirement. Improvement in results during 2006 was designed to trigger an increase in the overall LTIP payout to be made in early 2007 and that increase is included as 2006 compensation in the Summary Compensation Table. The cumulative three-year operating profit target (100%) for the 2004-2006 LTIP was pre-established at \$65 million. The actual cumulative operating profit, as adjusted for certain non-recurring costs, as approved by the Committee, for the 2004-2006 time period was \$94.1 million which resulted in a payout of 141.6%. The maximum for any LTIP payout is 150% of target. In 2005, the Committee established an overlapping three-year LTIP using performance shares under our 1995 Stock Incentive Plan with management objectives based on cumulative operating profit with a performance period from January 1, 2005 through December 31, 2007. Payments under this LTIP will be made based solely upon performance results for the full three-year LTIP period, with no banking of amounts for interim results. Payouts will be determined for performance measured through 2007, payable in early 2008.

In 2006, the Committee established another overlapping three-year LTIP using both performance restricted shares and performance shares under our 2006 Stock Incentive Plan, which we refer to as the 2006 Plan, with management objectives based on cumulative operating profit for the period from January 1, 2006 through December 31, 2008. Payments under this LTIP will be made based solely upon performance results for the full three-year LTIP period, with no banking of amounts for interim results. Payouts will be determined for performance measured through 2008, payable in early 2009. The Committee designed the award so that, once target level performance is attained and the performance restricted shares are earned, results above the targeted level will be rewarded with cash earned from performance shares. The intended result is that the cash realized on above-target performance may be used to help pay income taxes associated with the performance restricted shares earned. In this way, the Committee has provided the opportunity for more of the shares earned to be retained by the executives, after taxes are paid on the total incentive awards earned.

In 2007, the Committee established another overlapping three-year LTIP using both performance restricted shares and performance shares under our 2006 Plan, with management objectives based on cumulative operating profit for the period from January 1, 2007 through December 31, 2009. Payouts will be payable in early 2010. The Committee designed the award so that, once target level performance is attained and the performance restricted shares are earned, results above the targeted level will be rewarded with performance shares. A pre-established cumulative operating profit threshold must be met before any payout is attained. However, should the cumulative operating profit threshold not be met, and Brush's stock performance during the three-year performance period is in the top quartile compared to the Russell 2000, then a payout can be made, but only at the threshold (25% of target) level.

At target levels of performance, the Committee designed these awards to provide approximately 35% to 40% of total compensation for each executive officer for the year in which the performance period ends. These amounts are taxable when paid and may be part of the compensation taken into account in the pension benefit formulas and used as the base for deferral and matching contribution calculations for other retirement benefits. Generally, they are not included in compensation for purposes of determining any other benefit amount, except that they may affect calculation of payments that may be paid upon a change in control or other potential severance payments, as described below in Other Potential Post-employment Payments.



**Table of Contents**

***Stock-based Compensation Grants***

The 2006 Plan was approved by the shareholders and implemented in 2006 to replace the 1995 Stock Incentive Plan. To provide the greatest planning flexibility, grants under the 2006 Stock Incentive Plan may take various forms.

As with the 1995 Stock Incentive Plan, restricted share grants and stock appreciation right grants under the 2006 Plan generally will be made in February each year and will be used to provide one-half of the named executive officers total long-term opportunity. As noted above, the other half of the long-term award opportunity value is provided through performance-based grants under the LTIPs, pursuant to the 2006 Plan.

For 2006, grants of stock appreciation rights were the only grants made pursuant to the 2006 Plan in addition to those provided under the 2006-2008 LTIP. For 2007, 25% of the overall long-term opportunity will be grants of stock appreciation rights, and the other 25% will be restricted stock shares. These shares will vest in 2009 after three years of service, with the added requirement that the net after tax shares be held by the named executive officers while they are employed for an additional seven years, before the shares may be sold or transferred.

Said differently, the total long-term opportunity for each officer is comprised of 50% LTIP (performance restricted shares and performance shares), 25% Stock Appreciation Rights and 25% Restricted Shares, and all these components are pursuant to the 2006 Plan.

Grants pursuant to the 2006 Plan are part of the variable compensation that is an essential element of the total compensation package of the named executive officers. The Committee intends the grants to serve as incentives to the executives both to increase the value of our stock and to remain in our service.

The number of stock-based grants currently held by each executive is not always taken into consideration in making new grants to that executive. The relative values of base salary and total compensation among comparable companies in the survey data used, as discussed above, are the greater determining factors in setting the long-term incentive amounts, along with consideration of the experience and responsibilities of the executive.

Generally, restricted shares and stock appreciation rights are not included in compensation for purposes of determining any other benefit amount, except that they may affect calculation of payments that may be paid upon a change in control or other potential severance payments, as described below in Other Potential Post-employment Payments.

***Pension Benefits***

The primary vehicle for providing retirement compensation to all employees is the Brush Engineered Materials Inc. Pension Plan, which we refer to as the qualified pension plan and is a defined benefit plan. All the named executive officers participate in the qualified pension plan as part of their competitive total compensation package. Before June 1, 2005, the benefit formula was 50% of final average earnings over highest 5 consecutive years minus 50% of annual Social Security benefit, the result prorated for service less than 35 years. Effective as of May 31, 2005, we froze the benefit under the prior formula for the named executive officers.

Beginning June 1, 2005, the qualified pension plan formula was reduced for all participants including Messrs. Hipple, Grampa and Skoch to 1% of each year's compensation, as defined in the qualified pension plan. The retirement benefit for these individuals will be equal to the sum of that accrued as of May 31, 2005 and that accrued under the new formula for service after May 31, 2005. However, because the amount of compensation that may be included in the formula for calculating pension benefits and the amount of benefit that may be accumulated in the qualified pension

plan are limited by the Internal Revenue Code, the named executive officers will not receive a benefit from the qualified pension plan equal to 1% of their total pay.

The limitation of the qualified pension plan benefit may be taken into account by the Committee in exercising its discretion on the determination of any amounts intended to supplement retirement income for the named executive officers, such as the discretionary monetary awards granted for 2006. The benefit

## **Table of Contents**

accumulated under the qualified pension plan does not affect any other element of compensation for the named executives, except to the extent it is included in the calculation of payments that may be paid upon a change in control or other potential severance payments, as described below in Other Potential Post-employment Payments.

### ***Discretionary monetary awards and bonuses***

As mentioned above, the named executive officers will not receive a full benefit from the pension plan because the amount of compensation that may be taken into account and the amount of benefit that may be accumulated in the qualified pension plan is limited by the Internal Revenue Code. Yet, unlike comparable employers, we do not provide a contractual supplemental retirement benefit to our named executive officers. At its December 4, 2006 meeting, the Committee exercised its discretion to authorize special awards in lieu of a supplemental retirement benefit plan for Mr. Hipple in the amount of \$163,750, for Mr. Grampa in the amount of \$61,882 and for Mr. Skoch in the amount of \$88,625, all paid on January 5, 2007.

The amounts of these payments were derived by making assumptions regarding future anticipated earnings and actuarially calculating a present value benefit equivalent to what would have been accrued if we had in effect a plan similar to the Supplemental Retirement Benefit Plan that was terminated in 2004. The Committee added an additional five years of service to the calculation as part of Mr. Hipple's overall compensation package.

These payments may be taken into account in calculating future supplemental retirement amounts, if any are awarded. They also may affect calculation of payments that may be paid upon a change in control or other potential severance payments, as described below in Other Potential Post-employment Payments, but generally are not intended to affect the amounts of any other compensation element for the named executive officers.

The Committee otherwise generally does not, and did not for 2006, make any other discretionary awards or bonuses and no obligation exists for future special awards of any type. However, the Committee considers that such awards may be useful to maintain competitive total compensation structure in the case of extraordinary events or to reward extraordinary performance beyond the events anticipated in goals set under the Management Performance Compensation Plan and the Long-term Incentive Plans.

### ***Savings and Investment Plan***

Another vehicle for providing retirement compensation to all employees is the Brush Engineered Materials Inc. Savings and Investment Plan, which we refer to as the 401(k) plan and which is a defined contribution plan. All the named executive officers participate in this plan as part of their competitive total compensation package.

The 401(k) plan offers the executives and all other employees the opportunity to defer income. In addition, we make a matching contribution to each employee equal to 50% of the first 6% of compensation deferred by the employee. However, the compensation that may be used in applying any deferral election or matching contribution percentage is limited by rules in the Internal Revenue Code. In 2006, that limit was \$220,000.

This compensation element is tax-deferred and is not intended to affect the value of any other compensation element, but the amount of contributions that may be made under the 401(k) plan may affect calculation of payments that may be paid upon a change in control or other potential severance payments, as described below in Other Potential Post-employment Payments.

### ***Key Employee Share Option Plan (KESOP)***

We established the KESOP in 1998 to provide executives with an opportunity to defer a portion of their compensation in the form of options to purchase mutual funds invested in companies other than Brush. Due to the enactment in 2004 of Section 409A of the Internal Revenue Code, which provides new tax rules for deferred compensation plans, the KESOP was frozen effective December 31, 2004. Accordingly, there have

## **Table of Contents**

been and will be no new deferrals or contributions to the KESOP after that date and no new participants will enter the plan. We maintain the account balances as part of the executives' past compensation to be paid in the future in accordance with the terms of the plan, but these accounts are not considered a currently active part of the total compensation package of any named executive officer.

### ***Executive Deferred Compensation Plan II (EDCP II)***

In 2004, the Committee established the EDCP II to replace the KESOP. The EDCP II provides an opportunity for the named executive officers to defer a portion of their compensation. The EDCP II also provides a nonelective deferred compensation credit to the executive's account from us in an amount equal to 3% of the executive's annual compensation above the qualified plan limit. The limit for 2006 was \$220,000, as determined under the Internal Revenue Code. The Committee considers this contribution part of a competitive total compensation package and intends it to be a replacement for the loss of any 401(k) plan matching contribution that otherwise would have been attributable to the excess compensation over the required limit. Earnings are credited to each executive's account based on that executive's choice of investment options from a list provided by the Committee.

This compensation element is tax-deferred and is not intended to affect the value of any other compensation element.

### ***Health and Welfare Benefits***

As part of their competitive total pay package, the executives participate in the group life, health, and disability programs provided all of our other salaried employees. No other special health or welfare benefits are provided for the named executive officers while they are actively employed, nor are any promised for after their employment terminates.

Almost all of the value of these benefits is not taxable and does not affect the value of any other elements of compensation for the named executive officers, but they may affect calculation of payments that may be paid upon a change in control or other potential severance payments, as described below in Other Potential Post-employment Payments.

### ***Perquisites***

Named executive officers are provided only a few additional benefits, compared to those provided by other employers. We pay for financial planning services, to a maximum of \$5,000 each year, to relieve the executives of the time-consuming burden and distraction of assessing and planning their finances and of managing the related tax planning and reporting requirements.

In addition, we pay for annual dues for various club memberships for the named executive officers. In 2006 the Committee approved certain one-time initiation fees to Mr. Hipple as part of his CEO compensation package. Club memberships are subject to Committee review and approval as those capable of best serving our interests. The Committee believes that such memberships provide the named executive officers with important contacts within the business and local community and provide a controlled and positive place for business entertainment needs.

These benefits are included in taxable income, and do not affect the determination of retirement benefits. They are not expected to affect the value of any other elements of compensation for the named executive officers, except to the extent they may affect calculation of payments that may be paid upon a change in control or other potential severance payments, as described below in Other Potential Post-employment Payments.

### **Stock-based Compensation Grant Procedures**



The Committee generally awards grants of stock-based compensation in the first quarter each year, usually in February. Exceptions to this would be grants made upon shareholder approval of a new stock-based

## **Table of Contents**

plan or grants as part of a total compensation package to support the hiring or promotion of a key executive officer, such as the promotion of Mr. Hipple to Chairman and Chief Executive Officer in 2006.

Among these grants, stock options and stock appreciation rights are granted only to our top twelve executives, who include the named executive officers and whose contributions and skills are considered critical to our long-term success.

The Compensation Committee is solely responsible for the grant of stock-based awards. In February of 2007 the Committee adopted the following Stock Award Administrative Procedure Guidelines related to the various forms of stock award grants approved by the Committee.

### ***Stock Award Administrative Procedure Guidelines***

1. All stock option grant exercise prices, stock appreciation rights or the price used for a grant of performance-related common shares shall be approved by the Senior Vice President, Administration and Vice President, Treasurer and Secretary.

The date of grant and pricing shall be in accordance with the underlying stock plan

The fair market value price shall be the closing price as quoted in the Wall Street Journal or if the Wall Street Journal is not available on Yahoo! for the date the fair value is determined

If a particular stock plan provides for a method of pricing other than the closing stock price then such other method must be used in accordance with that plan

The Board resolution for a particular grant shall cite the plan, date and source of pricing data

2. The list of recommended options, Stock Appreciation Rights, Restricted Shares, Performance Restricted Shares and Performance Shares to be awarded by individual for approval shall be submitted through the Senior Vice President, Administration.

The Senior Vice President, Administration shall present the list to the Committee for approval

The Senior Vice President, Administration shall make such changes to the list as discussed and approved by the Board and will provide the final list to the Secretary of the Company for filing as an Exhibit to the minutes of the meeting

The Treasurer shall prepare the form of agreements for each individual with an award

The Treasurer shall reconcile the agreements to the Board Exhibit prior to distribution

3. The Secretary shall maintain a permanent record of the above for each series of awards.

## **COMPENSATION COMMITTEE REPORT**

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in our Annual Report on Form 10-K for the year ended December 31, 2006.

The foregoing report has been furnished by the Compensation Committee of the Board of Directors.

N. Mohan Reddy (Chairman)  
Albert C. Bersticker  
William P. Madar  
John Sherwin, Jr.

Notwithstanding anything to the contrary as set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that incorporate future filings, including this proxy statement, in whole or in part, the foregoing Compensation Committee Report shall not be incorporated by reference into any such filings other than our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

**Table of Contents****2006 SUMMARY COMPENSATION TABLE**

The following table sets forth information concerning the compensation of our Chief Executive Officer and our other executives named below during the fiscal year ended December 31, 2006 (the "Named Executive Officers"):

Named Executive Officer	Year	Salary(1)	Bonus(2)	Stock Awards(3)	Option Awards(4)	Non-Equity Incentive Plan Compensation(5)	Change in Pension Value and Non-qualified Deferred Compensation(6)	All Other Compensation(7)	Total Compensation(8)
							Earnings(6)		
		(\$)	(\$)	(\$)	(\$)	(\$)(5)	(\$)(6)	(\$)(7)	(\$)(8)
D. Harnett Chairman and Chief Executive Officer*	2006	287,856	907,436	225,383	0	397,933	131,974	969,060	2,900,000
J. Hipple Vice President and Chief Executive Officer	2006	448,615	163,750	386,633	101,442	702,187	14,547	225,396	2,000,000
Mr. Grampa Vice President Finance and Financial Officer	2006	289,419	61,882	186,266	36,369	369,836	18,614	260,006	1,200,000
A. Skoch Vice President, Administration	2006	289,419	88,625	187,170	36,369	377,623	23,970	288,122	1,200,000

\* Mr. Harnett retired from the company on June 2, 2006.

(1) For each of the named executives above, deferred compensation included in Salary is as follows:

	401(k)
Mr. Harnett	\$ 15,000
Mr. Hipple	13,465
Mr. Grampa	13,200
Mr. Skoch	15,000

(2) In 2002, we discontinued our Supplemental Retirement Benefit Plan for the above-named executives in exchange for amounts paid in settlement of our obligations. In 2006 the Compensation Committee exercised its discretion to authorize special awards in lieu of a supplemental plan. Mr. Harnett's award in the amount of \$907,436 is comprised of \$597,425 awarded in February 2006 and \$310,011 awarded in May 2006 as a final payment.

- (3) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2006 fiscal year for the fair value of Performance Restricted Shares (PRS), Performance Shares (PS) and Restricted Stock Units (RSU) granted in 2006 as well as prior fiscal years, in accordance with FAS 123(R). Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For RSUs, the fair value was calculated using the average of the high and low of our common stock prices on the date of grant. For the PRS and the PS, the fair value is calculated using the closing price of our common stock on the date of grant. For additional information, refer to Note K of the consolidated financial statements in the Form 10-K for the year ended December 31, 2006, as filed with the SEC. See the Grants of Plan-based Awards table for information on awards made in 2006. These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executive officers.
- (4) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2006 fiscal year for the fair value of the Stock Appreciation Rights (SARs) granted to each of the named executive officers in 2006 in accordance with FAS 123(R). Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information on the valuation assumptions with respect to the 2006 grants, refer to Note K of the

**Table of Contents**

consolidated financial statements in the Form 10-K for the year ended December 31, 2006, as filed with the SEC. See the Grants of Plan-based Awards table for information on SARs granted in 2006. These amounts reflect our accounting expense for these awards and do not correspond to the actual value that will be recognized by the named executive officer.

- (5) These amounts represent the payments in March 2007 for the Management Performance Compensation Plan (MPC) and the 2004 - 2006 cash LTIP as follows:

	<b>2006 MPC</b>	<b>2004 - 2006 LTIP</b>	<b>Total</b>
Mr. Harnett	\$ 267,883	\$ 130,050	\$ 397,933
Mr. Hipple	542,975	159,212	702,187
Mr. Grampa	266,012	103,824	369,836
Mr. Skoch	266,012	111,611	377,623

The amounts reflected above under the 2004 - 2006 LTIP do not include amounts that were banked as of December 31, 2005, which are included in the All Other Compensation column. For further discussion see the CD&A.

- (6) Amounts in this column represent the change in pension value for the year 2006 and earnings in excess of 120% of the applicable federal rate in effect during 2006 for the Kesop and EDCP II Plans discussed in detail on pages 31-33 of this proxy statement.
- (7) For all the named executive officers, All Other Compensation for 2006 includes the Company match to the 401(k) plan, reimbursement of club dues, and a Company contribution to the EDCP II. For Mr. Hipple, club dues were \$111,497, which includes \$97,869 for one-time initiation fees for a membership benefit extended to him when he became Chairman and CEO in May 2006. In addition, All Other Compensation for Mr. Harnett includes \$41,979 for three and one half weeks of vacation that was not taken at the time he retired on June 2, 2006 and also includes financial planning fees paid for Messrs. Harnett, Hipple and Skoch. Also included in All Other Compensation are amounts which relate to the banked amounts paid pursuant to the 2004-2006 LTIP. For each of the executive officers, amounts were banked as of December 31, 2005 based on achieving pre-established financial objectives for cumulative operating profit during 2004 and 2005. These amounts are \$903,825 for Mr. Harnett; \$95,602 for Mr. Hipple; \$247,200 for Mr. Grampa and \$265,740 for Mr. Skoch. The amount paid for the year 2006 under this plan is included in the column entitled Non-Equity Incentive Plan Compensation.

**Executive Employment Arrangements**

None of the named executive officers has an employment agreement. However, each named executive officer has a Severance Agreement that provides the executive with three-year severance benefits upon termination or significant change in the duties of the executive as a result of a change in control as defined in the agreement, and two-year severance benefits in the event of certain involuntary terminations. Discussion of the payouts provided for under various termination situations is set forth in the section Other Potential Post-Employment Payments below.

**Base Salary and Bonuses**

The Compensation Committee annually reviews and adjusts base pay, in keeping with the overall objectives, pay philosophy and relative position with comparable companies, all as discussed in more detail in the CD&A. Bonus

compensation in 2006 was comprised of performance-based amounts paid under the MPC and the additional discretionary amounts paid in lieu of supplemental retirement benefits.

For 2006, base salaries (including amounts deferred to the 401(k) plan) as a percentage of total compensation shown in the Summary Compensation table, were 44.36% for Mr. Harnett, 32.10% for Mr. Hipple; 30.94% for Mr. Grampa; and 31.39% for Mr. Skoch. In summary, except for Mr. Harnett, who

**Table of Contents**

retired in June of 2006, the sum of each executive's base salary and bonus was a little less than one-third of total compensation for the year.

**Stock Awards**

Stock-based grants under the LTIP and 2006 Stock Incentive Plan were made as SARs, PRS, and PS. Descriptions of these types of grants and the reason for these types of grants are in the CD&A.

Grants of RSs, PRS, and PS, the FAS 123(R) expense for which is disclosed in the Summary Compensation Table, were made in 2004, 2005, and 2006. The RSs vest after three years from the date of grant and the PRS and PS vest after three years subject to the achievement of specified performance criteria.

**2006 GRANTS OF PLAN-BASED AWARDS**

We currently are utilizing three plans that award executives opportunities to earn cash or stock compensation. The MPC provides cash compensation for annual performance. The 2006 Stock Incentive Plan provides equity-based compensation for service and performance for periods of more than one year. The LTIP annually provides a series of cash or performance share compensation opportunities, each of which are for performance for periods of three years.

The following table sets forth information concerning annual incentive cash awards, grants of SARs, PS and PRS to the Named Executive Officers during the fiscal year ended December 31, 2006 as well as estimated future payouts under those incentive plans. See CD&A for further discussion of these incentive plans and these types of grants and the reason for these types of grants on page 23.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive			Estimated Future Payouts Under Equity Incentive			All Other Stock Awards		Exercise or Base Price of Option Awards (\$/Sh)(3)	Closing price of BW on Date of Grant (\$/Sh)	Grant Date of Stock Awards and Fair Value of Stock Awards
		Plan Awards Threshold (\$)	Plan Awards Target (\$)	Plan Awards Maximum (\$)	Plan Awards(1) Threshold (#)	Plan Awards(1) Target (#)	Plan Awards(1) Maximum (#)	Number of Shares of Stock or Underlying Securities (#)	Number of Options (#)			
James H. Bennett	3/7/2006	0	137,800	275,600								
James H. Bennett	3/7/2006 5/2/2006	0	278,300	556,600	7,280	29,121	43,681		38,700	24.03	24.42	754,300 458,200
D. J. M. Mpa	3/7/2006 5/2/2006	0	136,253	272,506	2,532	10,127	15,190		14,000	24.03	24.42	262,300 165,700



3/7/2006	0	136,253	272,506	2,532	10,127	15,190				262,3
5/2/2006							14,000	24.03	24.42	165,7

- (1) Under the 2006 - 2008 LTIP, Performance Restricted Shares and Performance Shares were granted. The Performance Shares will be paid in cash if defined management objectives have been attained at a level between the target and maximum levels of achievement.
- (2) This column shows the SARs that were granted in 2006. These SARs become fully exercisable and vest 100% after three years.
- (3) This column shows the exercise price for the SARs granted on May 2, 2006 to the named executives. The exercise price was derived from the average of our high and low common stock prices on the date of grant.

**Table of Contents**

- (4) These numbers represent the full fair market value of the grants made in 2006 to each named executive officer. They are calculated in the same manner our financial statement expense for those grants is calculated under FAS 123(R). That expense value will be spread over the vesting period of the grant, if time-based, or over the expected life of the grant, if performance based. A brief explanation of how the rules of FAS 123(R) were applied in calculating this value can be found in Note K of the consolidated financial statements in the Form 10-K for the year ended December 31, 2006, as filed with the SEC.

**2006 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

Name	Option Awards Equity Incentive Plan Awards:				Option Expiration Date	Stock Awards Equity Incentive Plan Awards:			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(3)
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Price (\$)		Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)	Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(4)	
Gordon D. Harnett									
Richard J. Hipple	3,500			12.15	2/5/2012				
	6,400	1,600		5.55	2/11/2013				
	9,000			17.075	2/3/2014				
	10,000			17.68	2/8/2015				
	8,000			14.10	4/29/2015				
		38,700(1)		24.03	5/2/2016			43,681	1,475,107
	36,900	40,300							
	3,000			16.0625	12/1/2008				

John D.  
Grampa

6,000		14.69	2/2/2009					
8,000		15.97	2/1/2010					
10,000		22.43	2/6/2011					
15,000		12.15	2/5/2012					
15,000		17.075	2/3/2014					
15,000		17.68	2/8/2015					
	14,000(1)	24.03	5/2/2016		2,000	67,540		
							15,190	512,966
72,000	14,000							

Daniel  
A.  
Skoch

7,500		26.72	5/5/2008					
10,000		15.97	2/1/2010					
12,000		22.43	2/6/2011					
15,000		12.15	2/5/2012					
5,000		5.55	2/11/2013					
15,000		17.075	2/3/2014					
15,000		17.68	2/8/2015					
	14,000(1)	24.03	5/2/2016		2,000	67,540		
							15,190	512,966
79,500	14,000							

(1) These numbers represent the Stock Appreciation Rights that were granted in 2006. These SARs vest 100% after three years.

**Table of Contents**

- (2) 2,000 shares of restricted stock were awarded to Mr. Grampa on February 2, 2004 and 2,000 shares were awarded to Mr. Skoch on December 7, 2004. Shares are subject to forfeiture if these executives are not continuously employed for a three-year period from the date of grant.
- (3) Amounts in these columns were calculated using the December 29, 2006 Brush Engineered Materials Inc. Common Stock closing price of \$33.77 times the number of shares in the preceding column.
- (4) These awards represent the Performance Restricted Shares and Performance Shares that were granted under the 2006 - 2008 LTIP.

**2006 OPTION EXERCISES AND STOCK VESTED**

<b>Name</b>	<b>Option Awards</b>	
	<b>Number of Shares Acquired on Exercise (#)</b>	<b>Value Realized on Exercise (\$)</b>
Gordon D. Harnett(1)	332,500	\$ 3,063,065
Richard J. Hipple		
John D. Grampa(2)	15,000	276,834
Daniel A. Skoch(3)	28,500	297,320

The columns under the heading entitled **Stock Awards** to this table have been omitted because no awards were reportable thereunder.

- (1) Mr. Harnett exercised these stock options on eight separate dates starting May 3, 2006 and ending on October 26, 2006. The stock options exercised represent everything that Mr. Harnett had outstanding when he retired on June 2, 2006. Exercise prices of these stock options ranged from \$5.55 to \$26.72. These sales were implemented by Mr. Harnett under a prearranged trading plan pursuant to Rule 10b5-1 under the Securities Exchange Act.
- (2) Mr. Grampa exercised 2,100 stock options on May 3, 2006 and 12,900 stock options on May 4, 2006.
- (3) Mr. Skoch exercised the above stock options on May 1, 2006.

**2006 NONQUALIFIED DEFERRED COMPENSATION**

We maintain two nonqualified arrangements for executives, the Key Employee Share Option Plan ( **KESOP** ) and the Executive Deferred Compensation Plan II ( **EDCP II** ). A primary purpose of each is to provide benefits in the event a participant's compensation exceeds the amount of compensation that may be taken into account for deferring income and matching contributions under the Brush Engineered Materials Inc. Savings and Investment Plan ( **401(k) plan** ).

***Key Employee Share Option Plan***

The KESOP was established in 1998 to provide executives with options to purchase property other than our common stock (in this case, options to purchase certain mutual fund shares as further described below), which options replace a portion of the executive's compensation. The options cover property with an initial value equal to the amount of compensation they replace, divided by 75%, with an exercise price equal to the difference between that amount and the amount of compensation replaced (in other words, 25% of the fair market value of the option property). Thus, the executive may receive the increase or decrease in market value of the entire amount of the property covered by the option, including the exercise price. Due to the American Jobs Creation Act of 2004 which added section 409A to the Internal Revenue Code (the Code), the KESOP was frozen effective December 31, 2004. Moreover, options for purchase of property that did not become exercisable prior to 2005 under the KESOP and corresponding elections under the KESOP were cancelled. Each participant who had such KESOP options and elections cancelled received payment in the amount of the cancelled deferrals. Eligibility to participate and the property (consisting of shares of mutual funds) subject to the KESOP options were determined by the Compensation Committee of the Board. Mutual fund selection was intended to be the same or similar to that offered under the 401(k) plan, but was not required.

Executives

**Table of Contents**

were permitted to select among those mutual funds to determine those covered by the options obtained by them as a result of their compensation elections, but generally were not permitted to change that selection once made.

Although the KESOP was frozen as noted above, options that became exercisable prior to January 1, 2005 and which have not as yet been exercised remain on the books for some executives.

The KESOP balance of each executive is equal to the most recent closing price of the mutual funds under the options accumulated by the executive as of the end of the year. To obtain the portion of this balance based on any particular option, however, the executive must pay the 25% exercise price set when the option was granted. In addition to potential gains through changes in the market value for the underlying mutual funds, the executive may accumulate value whenever any dividends or other cash distributions are made relative to those mutual funds. Starting with dividends for the year ending December 31, 2004, the value of any such dividends or distributions is credited to the executive's EDCP II account (see discussion below of the EDCP II) as part of the compensation deferred under that program.

Unless the amount of mutual funds available under an option is adjusted as a result of a stock split, merger, divestiture, consolidation or other corporate transaction or unless other property is substituted for the mutual fund shares originally subject to the option, an option becomes exercisable 184 days after the grant of the option and remains exercisable at any time after that date until the earlier of the fifteenth anniversary of the grant or the third anniversary of the executive's termination of employment. If any adjustment in the number of mutual fund shares or any substitution of new property occurs, the exercise period will be interrupted for 184 days and the deadline to exercise will be extended by 184 days, but not more than 5 years beyond the original exercise deadline. Any option not exercised by the deadline may not be exercised after that.

The KESOP is unfunded. The options obligation for each executive is maintained in a book reserve account. We are under no obligation to set aside funds specifically designated to satisfy this obligation or to invest in any of the optioned mutual funds selected by the executive. However, we maintain a trust, as part of the general assets of the Company, intended to hold property for use in meeting this obligation, unless we become insolvent. In that case, the assets in the trust would be available to satisfy our creditors just as any other general assets of the Company, before the option property would be delivered. In other words, each executive participating in the KESOP is an unsecured general creditor of the Company with respect to the value of the property optioned as his KESOP benefits.

When an option is exercised, the executive pays the applicable exercise price to the Company and we deliver to the executive the underlying property, which may have been obtained and held as general assets of the Company before the option was exercised. The value of the underlying property delivered, less the exercise price paid, is treated as taxable income to the executive and he must pay the Company for any income taxes or other payroll taxes required to be withheld by the Company on that income. We may take an income tax deduction for the value of the property delivered, reduced by the exercise price paid.

No executive may transfer or sell his KESOP options during his life, except for a transfer, for no pay and only as approved by the Committee, to a member of the executive's immediate family, to a trust for the benefit of such a family member or to a partnership consisting only of such family members as partners. Upon an executive's death, his KESOP options will pass to his beneficiaries or estate, but they must be exercised before the earlier of the original deadline or the first anniversary of his death. No other transfers or withdrawals are permitted under the KESOP.

The latest exercise deadline for any existing KESOP options is June 30, 2019. As noted earlier, options may expire earlier, within three years of the executive's termination of employment.

***Executive Deferred Compensation Plan II***

The EDCP II provides executives an opportunity to make deferral elections generally not permitted under the 401(k) plan. Code section 401(a)(17) limits the amount of compensation that may be taken into account for deferrals under the 401(k) plan. For 2006, that limit was \$220,000. Each executive may elect each year to

**Table of Contents**

defer all or any portion of the sum of his Long-term Incentive Plan and Management Performance Compensation Plan payouts payable during that year, plus the portion of his base salary for that year that is in excess of the compensation limit under Code section 401(a)(17). In addition, we provide a non-elective deferral currently equal to three percent (3%) of his total compensation in excess of the Code section 401(a)(17) limit (his Excess Compensation ) designed to replace the employer matching contribution not permitted under the 401(k) plan because of the Code section 401(a)(17) compensation limit. Credits in amounts equal to the value of any dividends or other cash distributions payable from mutual funds optioned to the executive under the KESOP (see discussion of the KESOP above) are also added to the executive's EDCP II account balance starting with dividends for the year 2004.

The compensation deferrals credited to each executive are credited with earnings at a rate equal to the return on hypothetical investments selected by the executive from a list of mutual funds identified by the Compensation Committee of the Board. Investment selection is intended to be the same or similar to that offered under the 401(k) plan, but this is not required. The executive's investment selection is used only to determine earnings credits on the compensation deferrals under the EDCP II. We are not obligated to invest any funds in the mutual funds selected by the executive. Earnings returns will change from year to year.

The EDCP II is unfunded. Deferred compensation credits and related earnings credits for each executive are maintained in a book reserve account. We are under no obligation to set aside funds specifically designated to pay these deferred income amounts. However, we maintain a trust, as part of the general assets of the Company, intended to pay these deferred income amounts, unless we become insolvent. In that case, the assets in the trust would be available to satisfy creditors of the Company, just as any other general assets of the Company, before the deferred income amounts would be paid. In other words, each executive participating in the EDCP II is an unsecured general creditor of the Company with respect to the payment of his EDCP II benefits.

Upon termination of employment for any reason other than death, distribution from the EDCP II will be made as a lump sum or installments over three or five years, as elected by the executive when the deferral election was initially made. If no distribution election was made, the benefit will be paid in a lump sum. If the executive dies before his full EDCP II account is distributed, any remaining balance credited to that account will be paid to his beneficiary in a single lump sum.

Distribution will be made or begin 60 days following the executive's termination of employment (or as soon as practicable after that date), except that in the case of certain specified executives section 409A of the Code requires that payment not be made earlier than six (6) months after he separates from service for any reason other than death. Distribution or withdrawal for any other reason is not permitted under the EDCP II.



**Table of Contents****2006 NONQUALIFIED DEFERRED COMPENSATION TABLE**

The Nonqualified Deferred Compensation Table shows deferrals to the EDCP II by Brush Engineered Materials on behalf of each named executive officer for 2006, earnings credited to his EDCP II account and KESOP account for 2006, any distributions made from his EDCP II account during 2006, and the aggregate balance of his EDCP II credits and KESOP credits as of December 31, 2006.

Name		Executive	Registrant	Aggregate	Aggregate	Aggregate
		Contributions	Contributions	Earnings	Withdrawals/	Balance
		in	in	in Last FY	Distributions	at Last FYE
		Last FY	Last FY	(\$)(3)	(\$)	(\$)(4)
		(\$)(1)	(\$)(2)			
Gordon D. Harnett(5)	KESOP	0	0	184,662	0	1,029,242
	EDCP II	0	2,036	82,267	0	310,961
Richard J. Hipple	KESOP	0	0	2,427	0	14,424
	EDCP II	0	6,697	3,546	0	22,007
John D. Grampa	KESOP	0	0	136	0	1,438
	EDCP II	0	2,083	2,188	0	20,036
Daniel A. Skoch	KESOP	0	0	6,745	0	36,801
	EDCP II	0	2,083	4,426	0	24,386

For years before 2006, amounts deferred under either plan by each executive were not reported separately from his reported compensation and no above-market earnings were realized or reported, but Company contributions to the plans were included in All Other Compensation in the Summary Compensation Table.

- (1) There were no executive contributions credited to either plan in 2006.
- (2) Amounts in this column are also included in the All Other Compensation column of the Summary Compensation Table.
- (3) These earnings include dividends paid in 2005 for the KESOP, which were transferred to the EDCP II in the amounts as follows: Mr. Harnett \$43,269; Mr. Hipple \$685; Mr. Grampa \$2; and Mr. Skoch \$878.
- (4) The Aggregate Balance as of Last FYE for the KESOP for each of the executive officers listed above represents the net amount due the participant upon exercise (i.e., net of the 25% option price due back to the Company).
- (5) Mr. Harnett retired from the Company effective June 2, 2006.

**Table of Contents****2006 PENSION BENEFITS**

<b>Name</b>	<b>Plan Name</b>	<b>Number of Years Credited</b>	<b>Present Value of Accumulated Benefit (\$)</b>	<b>Payments During Last Fiscal Year (\$)</b>
Gordon D. Harnett	Brush Engineered Materials Inc. Pension Plan	15	386,033	0
Richard J. Hipple	Brush Engineered Materials Inc. Pension Plan	5	70,940	0
John D. Grampa	Brush Engineered Materials Inc. Pension Plan	8	152,422	0
Daniel A. Skoch	Brush Engineered Materials Inc. Pension Plan	23	415,517	0

## Assumptions:

Measurement Date: 12/31/2006

Interest Rate for Present Value: 6.125%

Mortality (Pre Commencement): None

Mortality (Post Commencement): RP-2000 Mortality Table (separate male and female rates)

Withdrawal and disability rates: None

Retirement rates: None prior to Age 65, except age 64 for Mr. Skoch

Normal Retirement Age: Age 65, except age 64 for Mr. Skoch as explained in the narrative below

Accumulated benefit is calculated based on credited service and pay as of 12/31/2006

All results shown are estimates only; actual benefits will be based on data, pay and service at time of retirement

The Brush Engineered Materials Inc. Pension Plan ( qualified pension plan ) is a defined benefit plan under which Messrs. Hipple, Grampa and Skoch are currently accruing benefits. Mr. Harnett retired from the Company effective June 2, 2006. Effective as of the close of business on May 31, 2005, the benefit under the prior formula for Messrs. Harnett, Hipple, Grampa and Skoch (50% of final average earnings over highest 5 consecutive years minus 50% of annual Social Security benefit, the result prorated for service less than 35 years) was frozen. The frozen annual benefits as of May 31, 2005, payable beginning at age 65 as a single life annuity, for Messrs. Harnett, Hipple, Grampa and Skoch are \$36,651, \$9,855, \$17,252 and \$54,856, respectively. Credited service for pension benefit purposes as of May 31, 2005 for Messrs. Harnett, Hipple, Grampa and Skoch is 14, 3, 6 and 21, respectively.

Beginning June 1, 2005, the qualified pension plan formula was changed for Messrs. Harnett, Hipple, Grampa and Skoch to 1% of each year's earnings. The retirement benefit for these individuals will be equal to the sum of that accrued as of May 31, 2005 and that accrued under the new formula for service after May 31, 2005.

The Pension Benefits table shows for Messrs. Harnett, Hipple, Grampa and Skoch the number of years of credited service, present value of accumulated benefit and payments during the last fiscal year under the qualified pension plan. We do not sponsor any other qualified or nonqualified defined benefit plan that provides benefits to Messrs. Harnett, Hipple, Grampa and Skoch.

The Present Value of Accumulated Benefit is the lump-sum value as of December 31, 2006 of the annual pension benefit that was earned as of December 31, 2006 that would be payable under the qualified pension plan for Messrs. Harnett, Hipple, Grampa and Skoch for life beginning at their normal retirement age. The normal retirement age is defined as age 65 in the qualified pension plan. Certain assumptions were used

**Table of Contents**

to determine the lump-sum value and to determine the annual pension that is payable beginning at normal retirement age. Those assumptions are described immediately following the Pension Benefits table.

If the participant terminates employment before completing 10 years of service, the annuity may not commence prior to age 65. If the participant terminates employment after completing 10 years of service, the annuity may commence as early as age 55 and is reduced 6.67% per year between ages 60 and 65 and 3.33% per year between ages 55 and 60 based on the participant's age at commencement, if the benefit commences prior to normal retirement age. An unreduced benefit is available commencing at age 62 for those participants who terminate after age 55 with at least 30 years of service. At year end 2006, Mr. Skoch had attained early retirement age, Messrs. Hipple and Grampa had not attained early retirement age, and Mr. Harnett had retired effective June 2, 2006, but had not yet commenced receiving his benefit. Mr. Skoch is the only named executive who may become eligible to commence his benefit on an unreduced basis prior to age 65. Assuming continued uninterrupted employment with the Company, Mr. Skoch would reach 30 years of service at the end of the month in which he attains age 64.

Benefits provided under the qualified pension plan are based on compensation up to a compensation limit under the Code (which was \$220,000 in 2006). In addition, benefits provided under the qualified pension plan may not exceed a benefit limit under the Code (which was \$175,000 payable as a single life annuity beginning at normal retirement age in 2006).

Compensation is generally equal to the total amount that is included in income (such as regular base salary, incentive compensation under any form of incentive compensation plan, sales commissions and performance restricted shares of stock at the time these shares are includable in the participant's gross income for Federal income tax purposes), plus salary reduction amounts under sections 125 and 401(k) of the Code. The annual salary and bonus for the current year for Messrs. Harnett, Hipple, Grampa and Skoch is indicated in the Summary Compensation Table. Each year's compensation for the qualified pension plan is limited by the compensation limits under the Code.

Generally, a participant's years of credited service are based on the years an employee participates in the qualified pension plan. However, in certain cases, credit for service prior to participation in the qualified pension plan is granted. Such cases include employment with the Company in a position that is not eligible for participation in the qualified pension plan and service with a predecessor employer. The years of credited service for Messrs. Harnett, Hipple and Grampa are based only on their service while eligible for participation in the qualified pension plan. The years of credited service for Mr. Skoch include service for the period June 29, 1983 - December 1, 1985 during which time he was covered under The S.K. Wellman Corp. Retirement Plan for Salaried Employees. All S.K. Wellman Corp. salaried employees who had transferred to Brush Wellman Inc. as salaried employees prior to May 4, 1986 and were still employed after May 4, 1986, receive credited service under the qualified pension plan equal to their credited service under The S.K. Wellman Corp. Retirement Plan for Salaried Employees at the time of their transfer. Mr. Skoch received a lump-sum payment during January 1987 in lieu of the benefit he had accrued for the period June 29, 1983 - December 1, 1985 under The S.K. Wellman Corp. Retirement Plan for Salaried Employees. Mr. Skoch's accrued benefit under the qualified pension plan has been offset for the benefit for which he received this lump-sum payment.

Lump sums are available under the qualified pension plan only for the portion of the participant's benefit that was accrued prior to July 1, 1992. Messrs. Harnett and Skoch are eligible to elect to receive the portion of their benefit that was accrued prior to July 1, 1992 as a lump sum with the remaining portion of their benefit payable in the form of an annuity with monthly benefit payments. Messrs. Hipple and Grampa are eligible only to have their benefits payable in the form of an annuity with monthly benefit payments.

The qualified pension plan was designed to provide tax-qualified pension benefits for most of our employees. Benefits under the qualified pension plan are funded by an irrevocable tax-exempt trust. An executive's benefits under the

qualified pension plan are payable from the assets held by the tax-exempt trust.

**Table of Contents**

**OTHER POTENTIAL POST-EMPLOYMENT PAYMENTS**

The Company has entered into severance agreements with the named executive officers to help ensure the continuity and stability of our senior management. The other incentive arrangements maintained by the Company also provide for payments to be made to the named executive officers upon certain terminations of employment.

**Severance Agreements**

*Basic Severance Benefits.* The severance agreements provide that if the executive's employment is terminated by the Company or one of its affiliates except for cause or gross misconduct, or if he resigns as a result of a reduction in his salary or incentive pay opportunity, severance benefits will apply. Severance benefits include rights to:

a lump-sum payment of two times salary and incentive compensation;

a lump-sum payment of two times any special award paid in lieu of benefits under the Company's former Supplemental Retirement Benefit Plan for the year in which termination occurs;

the continuation of retiree medical and life insurance benefits for two years;

a lump-sum payment of two times the benefit under the Company's Executive Deferred Compensation Plan II for the year in which termination occurs;

a lump-sum payment equal to the sum of the present value of any bonus he would have received under any long-term incentive plan;

any retirement benefits he would have earned under the Company's qualified retirement plans during the next two years; and

reasonable fees for outplacement services, up to \$20,000 maximum.

In addition, all equity incentive awards vest, and all stock options become fully exercisable, if the severance benefits are applicable.

*Change in Control Severance Benefits.* In the event of a change in control of the Company, as defined in these agreements, and if the executive's employment is terminated by the Company or one of its affiliates except for cause, or he resigns within one month after the first anniversary of the change, or the nature and scope of his duties worsens or certain other adverse changes occur and the Board of Directors so decides (referred to in the Table below as "Good Reason Termination"), the executives are entitled to receive similar severance benefits based on a three-year period, plus the cash value of certain other benefits (such as club dues and financial counseling) (collectively, the "Change in Control Benefits"). A termination or demotion following the commencement of discussions with a third party which ultimately results in a change in control will also activate the Change in Control Benefits. On February 8, 2007, the severance agreements were updated to include a tax gross up provision that will apply for five years under Section 280G of the Code. Payment of the Change in Control Benefits under the severance agreements are subject to the tax gross up for the first five years and thereafter are subject to a reduction in order to avoid the application of the excise tax on "excess parachute payments" under the Code, but only if the reduction would increase the net after-tax amount received by the executive. In addition, the Company must secure payment of the Change in Control Benefits under the severance agreements through a trust that is to be funded upon the change in control, and amounts due but not timely paid earn interest at the prime rate plus 4%. The Company must pay attorneys' fees and expenses incurred

by an executive in enforcing his right to Change in Control Benefits under his severance agreement.

*Nonsolicitation and Noncompetition Provisions.* Under the severance agreements, each executive agrees not to solicit any of our employees, agents or consultants to terminate their relationship with us, to protect our confidential business information and not to compete with the Company during employment or for a period of (i) two years following termination of the executive's employment by the Company or one of its affiliates except for cause or gross misconduct, or if he resigns as a result of a reduction in his salary or incentive pay

**Table of Contents**

opportunity or (ii) one year following a termination of employment for any other reason. Each executive also assigns to us any intellectual property rights he may otherwise have to any discoveries, inventions or improvements made while in our employ or within one year thereafter.

*Amounts Payable Under Severance Agreements.* The following table sets forth the amounts payable under the severance agreements. Note that this table does not include any benefits payable to the named executive officers under the retirement plan(s) of the Company or any subsidiary (see page 35), or any payout to the named executive officers under the Company's Executive Deferred Compensation Plan II (see page 34). Additional information about the amounts payable to the named executive officers in the event of retirement, death or permanent disability is presented separately after the table.

Benefits/Payments Upon Termination	Richard J. Hipple		John D. Grampa		Daniel A. Skoch	
	Involuntary Not For Cause Termination	Involuntary or Good Reason Termination After a Change in Control	Involuntary Not For Cause Termination	Involuntary or Good Reason Termination After a Change in Control	Involuntary Not For Cause Termination	Involuntary or Good Reason Termination After a Change in Control
Base Salary/Annual Bonus	\$ 2,030,600	\$ 3,045,900	\$ 1,082,600	\$ 1,623,900	\$ 1,082,600	\$ 1,623,900
LTIP Bonus	1,231,024	1,231,024	945,315	945,315	970,215	970,215
Welfare Benefits	52,800	79,200	52,800	79,200	52,800	79,200
Additional Benefits Under Retirement Plans	30,929	46,393	39,871	59,806	36,302	54,453
SRBP Replacement Benefits	270,000	405,000	76,622	114,933	159,088	238,632
Nonelective Contribution Credit Under Executive Deferred Compensation Plan II	13,394	20,091	4,166	6,249	4,166	6,249
Perquisites	20,000	71,000	20,000	35,000	20,000	65,000
Pro-Rata Annual MPC Bonus	N/A	515,300	N/A	251,500	N/A	251,500
Stock Options/SARs Accelerated Vesting	422,090	422,090	136,360	136,360	136,360	136,360
Restricted Stock Accelerated Vesting	0	0	67,540	67,540	67,540	67,540
280G Tax Gross-Up Payment(1)	N/A	2,999,012	N/A	1,565,620	N/A	1,612,007
<b>Total</b>	<b>\$ 4,070,837</b>	<b>\$ 8,835,010</b>	<b>\$ 2,425,274</b>	<b>\$ 4,885,423</b>	<b>\$ 2,529,071</b>	<b>\$ 5,105,056</b>

(1)



On February 8, 2007, the Board of Directors approved new forms of severance agreements. The new forms were updated to include a tax gross-up provision that will apply for five years from the date of the agreement under Section 280G of the Internal Revenue Code. The amounts shown in the table reflect amounts that would have been payable in the event the gross up had been in effect on December 29, 2006.

## **BENEFITS PAYABLE UPON RETIREMENT, DEATH OR DISABILITY UNDER INCENTIVE PLANS**

### ***Annual and Long-term Cash Incentive Plans***

*Management Performance Compensation Plan (MPC).* The named executive officers are participants in the Company's MPC, which provides for annual, single-sum cash payments that are based on achieving preestablished financial objectives and qualitative performance factors. Generally, an executive must be employed on the last day of the plan year in order to receive an award under the MPC. However, if an executive retires under a retirement plan of the Company or any subsidiary during a plan year, the executive will receive an award pro-rated to the beginning of the month following the executive's retirement date.

*Long-term Incentive Plan (LTIP).* The Company established a three-year cash incentive plan with management objectives based on financial measures (cumulative operating profit) with a performance period from January 1 through December 31. Each of the named executive officers participates in the LTIP. Generally, an executive must be employed on the last day of the performance period in order to receive an

## **Table of Contents**

award. If an executive retires under a retirement plan of the Company or any subsidiary during the performance period, the executive will receive a pro-rated award at the end of the applicable performance period based on the time employed during the performance period. In addition, an executive will receive full payment of the award for the entire performance period at target level if he should die or become permanently disabled during the performance period. Assuming a termination of employment due to death or permanent disability on December 29, 2006, the amounts payable under the LTIP would have been \$400,279, \$568,083 and \$586,623 for Messrs. Hipple, Grampa and Skoch, respectively.

### ***2006 Stock Incentive Plan***

In March 2006, the Company adopted the Brush Engineered Materials Inc. 2006 Stock Incentive Plan (the 2006 Plan ). The 2006 Plan authorizes the Compensation Committee to provide equity-based compensation in the form of performance restricted shares, performance shares, performance units, restricted shares, option rights, stock appreciation rights and restricted stock units for the purpose of providing incentives and rewards for superior performance.

*Performance Shares.* Each of the named executive officers have received grants of Performance Restricted Shares and Performance Shares under the 2006 Plan. The award agreements provide that all Performance Restricted Shares will immediately vest if the executive dies or becomes permanently disabled while employed by the Company or any subsidiary during the applicable performance period. Assuming a termination of employment due to death or permanent disability on December 29, 2006, the value of accelerated vesting of the Performance Restricted Shares would have been \$983,416, \$341,989 and \$341,989 for Messrs. Hipple, Grampa and Skoch, respectively. In addition, if the executive retires, a pro-rata portion of the Performance Restricted Shares will vest at the end of the applicable performance period, provided that management objectives have been attained. Assuming a termination of employment due to retirement on December 29, 2006, the value of pro-rata accelerated vesting of the Performance Restricted Shares would have been \$245,854, \$85,497 and \$85,497 for Messrs. Hipple, Grampa and Skoch, respectively.

*Stock Options and Stock Appreciation Rights.* Each of the named executive officers has received grants of stock options and/or stock appreciation rights (the Awards ) under the 2006 Plan. The Award agreements generally provide that Awards terminate 190 days after termination of employment. However, the Award agreements also provide that all Awards will immediately vest if the executive dies while employed by the Company or any subsidiary or retires under a retirement plan of the Company or any subsidiary. At the discretion of the Committee, all Awards will immediately vest upon a termination of the executive's employment under circumstances determined by the Board to be for the convenience of the Company. Assuming a termination of employment due to death, retirement or upon a termination of employment described in the preceding sentence on December 29, 2006, the value of any accelerated vesting of the Awards would have been \$376,938, \$136,360 and \$136,360 for Messrs. Hipple, Grampa and Skoch, respectively.

## **RELATED PARTY TRANSACTIONS**

In 2002 we entered into life insurance agreements with six employees, including two of the named executive officers, Messrs. Harnett and Skoch, and purchased life insurance policies pursuant to those agreements. These agreements, and the policies, which are owned by the employees, remain outstanding, and the portions of the premiums we paid are treated as loans to the employees, secured by the insurance policies, for financial purposes. The agreements require the employees to maintain the policies' cash surrender values in amounts at least equal to the outstanding loan balances. Mr. Harnett's loan in the principal amount of \$260,000, which had not changed since the inception of the program, was repaid in full after his retirement in 2006. Mr. Skoch's principal balance, which has not changed since inception, is \$39,951. Interest on the loans is based on the applicable federal rate, which is currently 5.3%. Mr. Harnett paid the Company \$5,720 in interest, which accrued during 2006 prior to repayment of his loan, and

Mr. Skoch paid \$1,748 in interest for the year.

We recognize that transactions between us and any of our directors or executive officers can present potential or actual conflicts of interest and create the appearance that our decisions are based on

**Table of Contents**

considerations other than the best interests of our shareholders. Pursuant to its charter, the Governance and Organization Committee considers and makes recommendations to the Board with regard to possible conflicts of interest of Board members or management. The Board then makes a determination as to whether to approve the transaction.

**AUDIT COMMITTEE REPORT**

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the Company's systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the annual report with management, and discussed the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent registered public accounting firm, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards. In addition, the Committee has discussed with the independent registered public accounting firm the auditors' independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board, and considered the compatibility of nonaudit services with the auditors' independence.

The Committee discussed with the Company's internal and independent auditors the overall scope and plans for the respective audits. The Committee meets with the internal and independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Committee held six meetings during 2006.

In reliance on these reviews and discussions, the Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the Securities and Exchange Commission.

In March 2007, a revised charter for the Audit Committee was adopted and is available on our website at [www.beminc.com](http://www.beminc.com).

William R. Robertson (Chairman)  
Joseph P. Keithley  
William B. Lawrence  
William G. Pryor

**Table of Contents****2. RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has appointed Ernst & Young LLP as the independent registered public accounting firm for fiscal 2007 and presents this selection to the shareholders for ratification. Ernst & Young LLP will audit our consolidated financial statements for fiscal 2007 and perform other permissible, pre-approved services. Representatives of Ernst & Young LLP are expected to be present at the 2007 annual meeting. These representatives will have the opportunity to make a statement if they desire to do so and will respond to appropriate questions.

*Preapproval Policy for External Auditing Services*

The Audit Committee has established a policy regarding pre-approval of all audit and non-audit services expected to be performed by our independent registered public accounting firm, including the scope of and estimated fees for such services. Our independent registered public accounting firm, after consultation with management, will submit a budget, based on guidelines set forth in the policy, for the Audit Committee's approval for its annual audit and associated quarterly reviews and procedures. Management, after consultation with our independent registered public accounting firm, will submit a budget, based on guidelines set forth in the policy, for the Audit Committee's approval for audit related, tax and other services to be provided by our independent registered public accounting firm for the upcoming fiscal year. The policy prohibits our independent registered public accounting firm from providing certain services described in the policy as prohibited services. The Audit Committee approved all of the estimated fees described below under the heading External Audit Fees.

*External Audit Fees*

	<b>2006</b>	<b>2005</b>
Audit Fees	\$ 1,659,700	\$ 1,509,500
Audit-related Fees	145,100	183,500
Tax Fees	150,000	231,500
All Other Fees	0	0
Total	\$ 1,954,800	\$ 1,924,500

**Audit Fees**

Audit fees consist of fees billed for professional services rendered for the integrated audit of our consolidated financial statements and on management's assessment and effectiveness of internal control over financial reporting and review of the interim consolidated financial statements included in quarterly reports and audits in connection with statutory requirements.

**Audit-related Fees**

Audit-related services principally include the audit of financial statements of our employee benefit plans and due diligence services for recent acquisitions.

**Tax Fees**

Tax fees include corporate tax compliance, tax advice and tax planning.

**All Other Fees**

We had no fees included in All Other Fees during 2006 or 2005.

**The Board of Directors of Brush Engineered Materials unanimously recommends a vote FOR Proposal 2 to ratify Ernst & Young LLP as independent registered public accounting firm for the year 2007.**

**Table of Contents**

**SHAREHOLDER PROPOSALS**

We must receive by November 17, 2007, any proposal of a shareholder intended to be presented at the 2008 annual meeting of Brush Engineered Materials shareholders and to be included in our proxy, notice of meeting and proxy statement related to the 2008 annual meeting pursuant to Rule 14a-8 under the Securities and Exchange Act of 1934. These proposals should be submitted by certified mail, return receipt requested. Proposals of shareholders submitted outside the processes of Rule 14a-8 under the Exchange Act in connection with the 2008 annual meeting must be received by us on or before the date determined in accordance with our code of regulations or they will be considered untimely under Rule 14a-4(c) of the Exchange Act. Under our code of regulations, proposals generally must be received by us no fewer than 60 and no more than 90 days before an annual meeting. However, if the date of a meeting is more than ten days from the anniversary of the previous year's meeting and we do not give notice of the meeting at least 75 days in advance, proposals must be received within ten days from the date of our notice. Our proxy related to the 2008 annual meeting of Brush Engineered Materials shareholders will give discretionary authority to the proxy holders to vote with respect to all proposals submitted outside the processes of Rule 14a-8 received by us after the date determined in accordance with our code of regulations.

**OTHER MATTERS**

We do not know of any matters to be brought before the meeting except as indicated in the notice. However, if any other matters properly come before the meeting for action of which we did not have notice prior to March 1, 2007, or that applicable laws otherwise permit proxies to vote on a discretionary basis, it is intended that the person authorized under solicited proxies may vote or act thereon in accordance with his own judgment.

By order of the Board of Directors,

Brush Engineered Materials Inc.

Michael C. Hasychak  
Secretary

Cleveland, Ohio  
March 16, 2007

**Table of Contents**

**PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED FOR THE PROPOSAL. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.**

Mark Here   
for Address  
Change or  
Comments

**PLEASE SEE REVERSE SIDE**

- |  |                       |                              |                                  |                                  |
|--|-----------------------|------------------------------|----------------------------------|----------------------------------|
|  | FOR                   |                              | WITHHELD<br>FOR ALL              |                                  |
| 1. Election of the following Directors:<br>Nominees:<br>01 Joseph P. Keithley<br>02 William R. Robertson<br>03 John Sherwin, Jr. | <input type="radio"/> |                              | <input type="radio"/>            |                                  |
| 2. Ratifying the appointment of Ernst & Young as independent registered public accounting firm of the Company.                   |                       | FOR<br><input type="radio"/> | AGAINST<br><input type="radio"/> | ABSTAIN<br><input type="radio"/> |
- The Board of Directors recommends a vote FOR the above proposal.**

**The Board of Directors unanimously recommends a vote FOR ALL the above nominees.**

Withheld for the nominees you list below: (Write that nominee's name in the space provided below.)

\_\_\_\_\_

Signature \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

**NOTE: Please sign exactly as the name appears hereon. When signing as attorney, executor, administrator, trustee or guardian, please add your title as such.**

**5 FOLD AND DETACH HERE 5**



**Table of Contents**

**BRUSH ENGINEERED MATERIALS INC.**

**Solicited on Behalf of the Board of Directors**

The undersigned appoints Richard J. Hipple or if he is unable or unwilling to act, then Michael C. Hasychak, with full power of substitution, to vote and act for and in the name of the undersigned as fully as the undersigned could vote and act if personally present at the annual meeting of shareholders of Brush Engineered Materials Inc. to be held on May 1, 2007 and at any adjournment or postponement thereof:

**The Board of Directors recommends a vote FOR all nominees in Proposal 1 and FOR Proposal 2.**

**The shares represented by this proxy will be voted as directed or, if directions are not indicated, will be voted FOR the election of directors in Proposal 1 and "FOR" Proposal 2. In their discretion, the proxies are authorized to vote upon such other business that may properly come before the annual meeting of shareholders or any adjournment or postponement thereof.**

**(Continued and to be marked, dated and signed, on the other side)**

**Address Change/Comments (Mark the corresponding box on the reverse side)**

**5 FOLD AND DETACH HERE 5**

**PRINT AUTHORIZATION**

**To commence printing on this proxy card please sign, date and fax this card to: 732-802-0260**

**SIGNATURE: \_\_\_\_\_ DATE: \_\_\_\_\_**

**Mark this box if you would like the Proxy Card EDGARized:  ASCII  EDGAR II (HTML)**

**(THIS BOXED AREA DOES NOT PRINT) Registered Quantity \_\_\_\_\_**