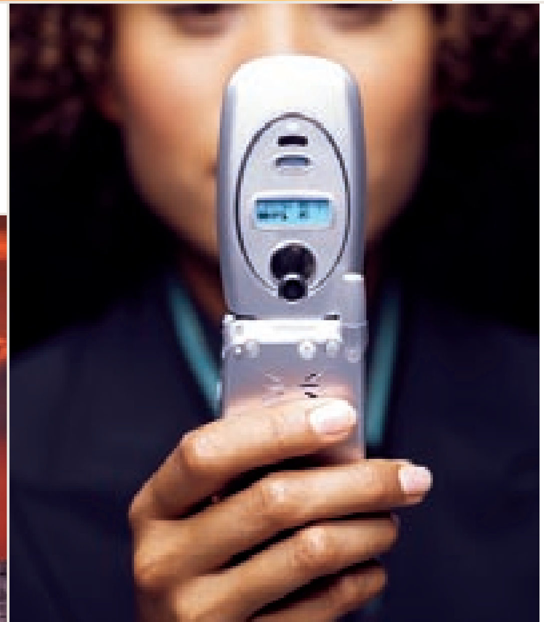
Brush Engineered Materials Inc.



05 ANNUAL REPORT

Seventy-five Years of Taking Technology Where It Has Never Been Before

BRUSH ON ITS 75TH ANNIVERSARY

Charles F. Brush, Jr.

Dr. Charles B. Sawyer

The history of Brush Engineered Materials Inc. began in the 1920s with a vision by two young researchers to commercialize a remarkable, but little known material, beryllium. The pioneering work of Charles F. Brush, Jr. and Dr. Charles B. Sawyer at Brush Laboratories in Cleveland led to the formation of Brush Beryllium Company, incorporated in January 1931, the predecessor to Brush Wellman Inc. and Brush Engineered Materials Inc.

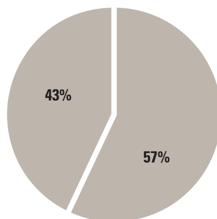
As the Company observes its 75th year in 2006, it commemorates its leadership and contributions to the industry that has become virtually synonymous with its name, as well as the enduring impact that its products have had in defending freedom, saving lives and improving the way we live, work and enjoy leisure.

With the vision of those two young researchers realized early on, Brush Engineered Materials has evolved into a leader of high performance engineered materials supplying global markets with beryllium and beryllium-containing products, including alloys and electronic products, as well as non-beryllium-containing materials such as precious metal products and other material systems. Today, major end-use markets include telecommunications and computer, magnetic and optical data storage, aerospace and defense, automotive electronics, industrial components and appliance.

The Company, which has remained headquartered in Cleveland, today has operating, service center and major office locations throughout North America, Europe and Asia. The Company has 1,970 employees and is listed on the New York Exchange under the symbol BW.

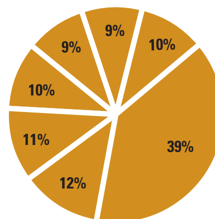
In this our 75th year, we honor our past but embrace our future. The historic timeline in this report celebrates our milestones as an organization and our role in making history.

Revenue by Segment



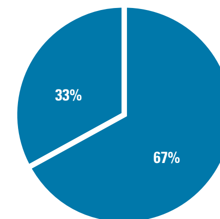
57% Metal Systems Group
43% Microelectronics Group

Revenue by Market



39% Telecommunications & Computer
12% Magnetic & Optical Data Storage
11% Aerospace and Defense
10% Automotive Electronics
9% Industrial Components
9% Appliance
10% Other

Revenue by Geographic Market



67% Domestic
33% International

Financial Highlights

(Dollars in millions except per share amounts)	2005	2004	2003
Sales	**$ 541.3**	$ 496.3	$ 401.0
Net income (loss)	**17.8**	15.5	(13.2)
Net income (loss) per share (diluted)	**0.92**	0.85	(0.80)

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To Our SHAREHOLDERS:

Gordon D. Harnett, Chairman and CEO,
Richard J. Hipple, President and COO

In 2005, Brush Engineered Materials continued to make excellent progress in a number of important areas, including growing revenue by 9%. However, in spite of the progress made, the Company did not generate an improvement in profitability. Continued escalation in raw material costs, especially copper, and a weaker product mix combined to drive margins down and, as a result, operating profit before debt prepayment charges declined by $1.1 million. Improving profitability has been and remains our number one priority, thus the results for 2005 are particularly disappointing. Pricing actions were implemented late in the year and initiatives are underway to improve the product mix as well. I am optimistic that 2006 will see improved profitability for the Company.

I also write this letter with mixed emotions, as it will be my final one as Brush's Chairman and CEO. In February, I announced my intention to retire and the Board of Directors confirmed its plans to name Dick Hipple, our current President, as my successor. Dick is a candidate for election as a director and the expectation is that, at the Company's Annual Meeting on May 2, Dick will be named Chairman, President and CEO. Since joining Brush in 2001, after 25 years in the steel industry, Dick has provided a strong focus on product and market development along with a commitment to our acquisition and operational excellence efforts. I am confident that he will provide the needed leadership and dedication to Brush's continued growth in sales and profitability.

Revenue Growth

In past letters to shareholders, I've reinforced the importance of our broad-based effort to increase revenue. The results achieved in this area over the past two years are very encouraging. The 9% or $45 million growth in 2005 sales came as a result of a lot of focus and hard work. For example, sales of beryllium mirror blanks for the James Webb Space Telescope were $12.1 million in 2005. The project was a major accomplishment, both technically and in terms of positive impact on profit. Further, we're proud to have been critical to a program so important to our nation's future scientific discovery. At Williams Advanced Materials Inc. (WAM), revenue jumped by nearly $44 million. Of that, $6 million is attributable to higher metal prices and the remainder is due to volume and product mix. Most of the WAM growth is coming from targeted growth platforms in physical vapor deposition (PVD) product applications.

Alloy Products generated strong growth in its bulk products sales to the oil and gas, aerospace and heavy equipment markets. Revenue in these areas grew 14%. Sales of ToughMet®, our newest family of non-beryllium alloys, saw volume jump by over 30%. Our ToughMet alloy, through its unique properties, is providing growth opportunities in new markets, new applications, and new opportunities against other specialty alloys such as nickel, titanium, and stainless steels. We are also seeing good results from our initiatives to grow our international business. In the fourth quarter, the Company's international sales grew 29%, resulting in a 9% growth for the year.

I am very encouraged by our new product and market development efforts. We are well positioned to continue serving a number of core markets, including magnetic and optical data storage, cellular handsets, aerospace (both commercial and defense), oil and gas, and heavy equipment markets – each of which is growing rapidly. This past year, we invested heavily in building our sales and marketing organization in Asia as we continue to increase our capabilities to support the many growth opportunities that region offers. Resources were added in China, Korea, Japan and Taiwan. Also, as part of our OMC Scientific acquisition, we are now planning construction of a new shield kit cleaning operation in Eastern Europe, scheduled to start up later in 2006.

Acquisitions

Augmenting our core businesses with niche acquisitions, and then expanding their capabilities and market reach, is an important dimension of our strategy. Our growth in 2006 and beyond will be aided by three recent acquisitions which will support and expand our PVD capabilities. OMC Scientific, Thin Film Technology and CERAC were purchased for approximately $38 million and will generate an estimated $37 to $39 million in revenue in 2006 along with an operating profit that is expected to be in the range of $6 to $7 million. These businesses bring to our PVD customer base an expanded set of products, technologies and capabilities which will support further growth in this important strategic market. We remain committed to seeking out additional opportunities.

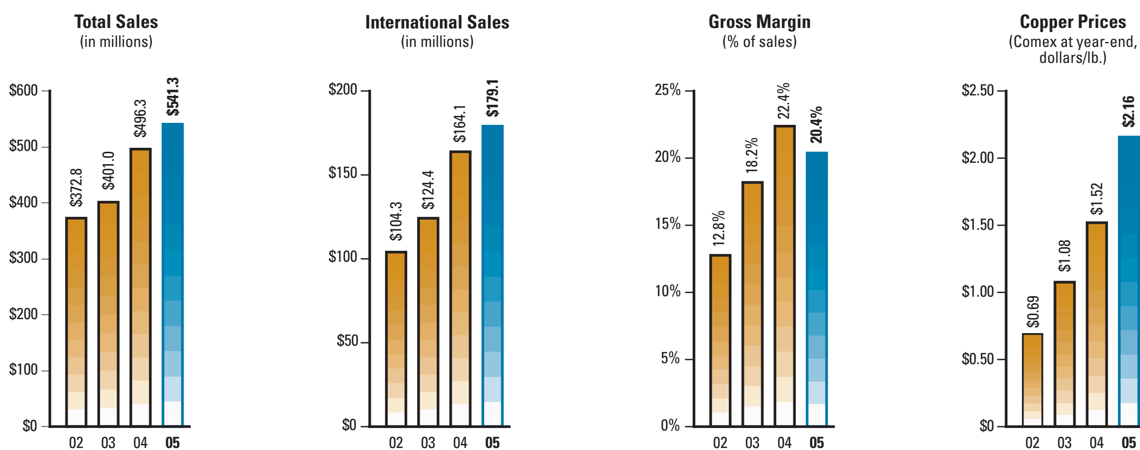
Significant Financial Flexibility

Another notable accomplishment in 2005 was the continued strengthening of our balance sheet. Debt was reduced during the year by an additional $15.3 million, improving our debt to debt-plus-equity ratio from 26% to 21%. In December, we prepaid $30 million of high yield subordinated debt which carried an annual interest expense of more than $4 million. During the fourth quarter, we amended our $105 million revolving credit facility, increasing it to $125 million. In addition, we also increased the capacity of our principal precious metal consignment facility from $46 million to $70 million. This increased capacity in both lines provides the liquidity and financial flexibility to support anticipated future growth.

Finally, we have significant net operating loss carry-forwards and, as a result, any federal cash taxes, in the near term, will be de minimis. This, obviously, continues to favorably affect our anticipated cash flow.

Operational Excellence

Our Lean Six Sigma initiatives have had a major impact in reducing costs and cycle times. This past year saw break-throughs in our Alloy operations resolving yield and quality



Significant increases in key raw material costs are putting pressure on margins

issues that had eluded us for years. Our other business units have all adopted the Lean Six Sigma principles and the benefits should be evident in 2006 and beyond.

I am extremely proud of the leadership Brush has, and will continue to take, in safety and environmental areas. In 2003, we launched "Excellence In Safety", a three-part program designed to improve safety performance and to recognize top performers. This past year saw thirteen units achieve our highest gold award level and five of those units had no recordable or lost time incidents.

On the environmental front, Brush has always been an active steward of its materials. We continue to partner with customers, original equipment makers and recyclers around the world to ensure our products are safely and properly handled during manufacture and recycling and are in compliance with applicable standards.

Outlook

I am very optimistic about the short and long-term future for Brush.

Our major markets are showing signs of strengthening as we enter 2006. In addition, our product and market development efforts, our geographic expansion activities, and our niche acquisitions are all at a stage where they can have a strong impact on sales growth. Price increases and other margin improvement initiatives implemented late last year should help to improve profitability in 2006. Should copper and other material prices continue to increase, the organization is fully committed to ensure that more and more of those increases are passed on.

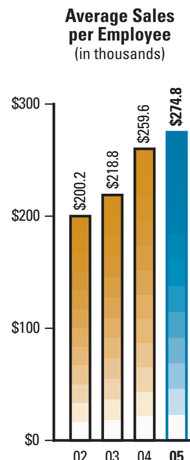
This year, as Brush celebrates its 75th anniversary, the Company has developed an organization focused on innovation and solving important customer needs for higher performing materials. That organization continues to be able to identify opportunities around the globe. We have a robust and capable organization which is focused on delivering to you, our shareholders, a strong return on your investment. We all recognize that improved profitability is the single most important measure of our success.

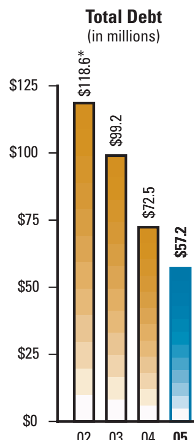
Let me conclude by first thanking the employees of Brush for their support and dedication to the success of our Company. Working with my associates at Brush has been the most rewarding part of my time as your CEO these past 15 years. Together we have refocused the Company's markets, invested in our future and expanded our international reach. The Company has high quality leadership and a strong commitment to succeed.

I also want to express my appreciation to Brush's Board of Directors for their support and counsel. They have helped both the Company and me in many ways during my tenure.

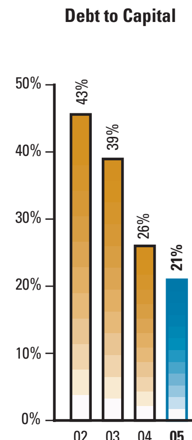
Finally, thank you, the Brush shareholders, for your continued interest in the Company. We appreciate your support and confidence.

Gordon D. Harnett
Chairman and CEO





*2002 figure includes a key off-balance sheet equipment lease



We have the financial flexibility to support future growth

A WINNING STRATEGY
Developing New Markets, Applications and Products

An innovative new technology enables Beryllium Products to produce metal blanks close to the customer's final part shape and dimensions. Left: an AlBeMet® blank is designed for the finished machined part for a forward-looking infrared (FLIR) optical sensing system for the U.S. Army's Apache helicopter (above). This near net shape technology is providing a major reduction in material and processing costs and helping to lead the way to increased participation in the growing military retrofit market.

Beryllium Products Enables New "Eyes" for Army's Combat Helicopter

Innovation has been the hallmark of Brush since it pioneered the commercial use of beryllium 75 years ago.

Within Beryllium Products, innovative technology is providing a dramatic reduction in material and processing costs and has helped to pave the way for a five-year, fixed-price contract with defense contractor Lockheed Martin.

Through 2009, the U.S. Army is outfitting its fleet of Apache combat helicopters with Lockheed Martin's new generation electro-optical system, Arrowhead™. The Arrowhead design utilizes Beryllium Products' AlBeMet® materials for its forward-looking infrared (FLIR) technology. Arrowhead provides significantly advanced target and piloting capabilities in day or night missions, and in adverse weather conditions.

To support Lockheed's price goals and generate its own margins on the business, Beryllium Products developed a near net shape process using HIP (hot isostatic press) consolidation that reduces the volume of input material required per FLIR system by 40%.

Traditionally, beryllium or AlBeMet powder has been consolidated into blocks that are sawed and machined into smaller blanks, and ultimately machined to a finished part by a fabricator. A typical finished part may weigh only a fraction of the required input material.

Near net shape technology enables Brush to directly produce individual blanks closer to final shape and dimension. Beyond lowering the input materials required, the technology reduces total processing costs, cycle times and working capital. The customer benefits from savings in machining cost and time.

Brush developed the technology through a collaborative effort involving beryllium operations, sales and marketing, and research and development, and in partnership with Lockheed Martin in Orlando, Florida, and L.A. Gauge of Sun Valley, California.

Near net shaping was implemented in the second half of 2005 and will be utilized throughout the life of the Arrowhead program involving several hundred units.

The technology holds promise for other applications and FLIR systems, especially with the installation of new laser-based coordinate measuring technologies that will ensure even higher levels of reliability and accuracy for near net shape blanks.

Lapping the competition – *racing engines, like the one in this Honda bike, experience extreme conditions. ToughMet® alloy has been able to extend the life of the valve guides.*

Providing Reliable Connections in Advanced Devices with Alloy Products

Alloy Products' high performance copper-based alloys continue to provide the perfect package of properties desired by the world's electronics designers.

Miniaturization of components in smaller and feature-rich portable devices, coupled with the constant need for resilience in electrical contacts, lowers the design margins available to engineers and the materials they specify. These more challenging requirements are helping to drive demand for Brush 60® and Alloy 290 – materials that provide an optimal combination of yield strength, conductivity, formability and stress relaxation resistance. In handset audio jacks, where strength and formability are important to performance, Alloy 290 has increasingly become the material of choice. It is also gaining favor as a material specified into input/output contact designs.

Supporting new interconnect technology – *Alloy Products' high performance strip alloys provide the strength and flexibility required by Cinch Connectors' iQ solderless connectors.*

With many of the technical and market barriers to portable streaming television and video content dropping, demand for even more advanced wireless handsets, MP3 players and other devices is expected to continue to grow.

Beyond the portable device market, Brush materials are now integral to Cinch Connectors' new "iQ" interconnect technology. The contact on the connector is a "Q"- shaped beam, assembled in a housing in a way that enables a high amount of flex. This connector system serves in land-grid-array (LGA), mezzanine and other interconnect applications.

New Technology Solutions from ToughMet®

Alloy Products' ToughMet® material is proving its strength across a widening field of rugged applications.

With the strength and hardness of titanium and the low friction qualities of softer metals, this engineered copper-nickel-tin alloy is a winning solution to some of the most challenging material requirements on the ground, under sea and in the skies. Customers, driven by the need to improve quality and performance while minimizing cost and downtime, are looking to ToughMet to deliver where other materials don't measure up.

Revving up in racing – ToughMet's success in the construction and heavy equipment market has opened a course into the high performance racing market. PR2 Racing Technology, whose services have made national winners in the off-road motorcycle racing circuit, turned to ToughMet to replace materials in cylinder head valve guides for single-cylinder motor cross motorcycles.

The change has eliminated wear, created extremely close clearance between moving components and produced better valve motion from less galling. As a result, these valve guides are performing twice as long and lowering parts costs.

Production efficiencies on the factory floor – Materials and specialty metals producer H.C. Starck converted to ToughMet to tackle costly wear on guides that support the movement of a 30,000-pound steel container back and forth throughout an extrusion press operation. Due to surface wear, Starck had been replacing the guides every two years. Once ToughMet plates were installed, wear has been virtually eliminated, a savings Starck estimates is worth up to one day per year in lost production time.

In the pursuit of energy – The drive for innovation and efficiency in the oil and gas market has drilling toolmakers increasingly favoring ToughMet. Sales in this market in

1921

Brush Laboratories formed on grounds of Brush family estate

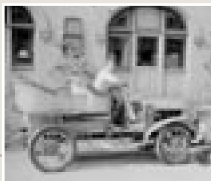


Photo Roy Krivanek

1931

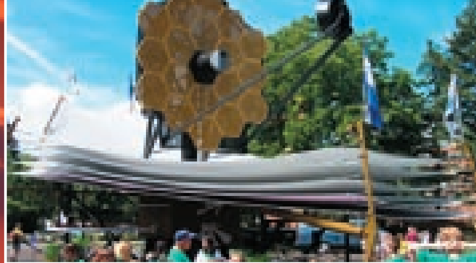
Brush Beryllium Company is incorporated; first-year sales were $543

1934

First sale of copper beryllium to Atlas Brass

1935

Production moves to Lorain, Ohio



Left – The demand for larger and deeper offshore oil fields presents a number of challenges for drilling materials and a growing source of opportunity for ToughMet. Center – A full scale model of NASA's James Webb Space Telescope is being displayed throughout the United States in advance of the Telescope's launch. Right – Aerospace is a large and growing market for Brush.

2005 were up by 50% over 2004, driven by global demand for energy and from additional penetration of the material within the market.

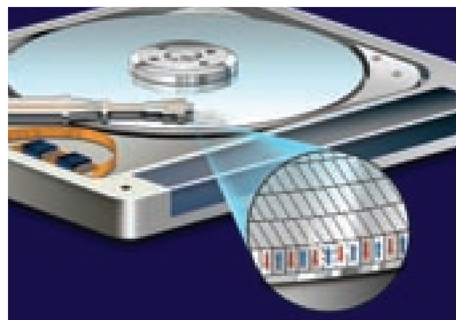
On and off shore, ToughMet is prized for its ability to withstand high pressures, strength, corrosion and magnetic transparency. Aker Kvaerner Subsea, a leading provider of subsea equipment for oil and gas production, is among the customers now installing well head control units with ToughMet 3 AT 110 for high pressure hydraulic connections. Applications also include bearings, actuators and machinery used to expand screen and casing pipes.

Setting new standards for flight – Sales of this non-beryllium alloy to aerospace customers grew by nearly 20% compared to 2004 and growth is expected to accelerate as new Boeing and Airbus models take to the skies.

ToughMet 3 AT 110 materials have been used in hundreds of parts in the airframe and wings of Boeing's new 787 Dreamliner aircraft. ToughMet provides a package of strength, low wear and weight savings, properties valued by aircraft makers for fuel efficiency, longer in-service intervals and lower maintenance costs. By year-end 2005, 23 airline customers had placed 291 firm orders for Boeing's new super-efficient plane, which is scheduled for its first flight in 2007. Additional Alloy Products' volumes are expected throughout 2006 as qualification of ToughMet 3 TS 160U and ToughMet 3 TS 120U progresses.

ToughMet is already at work as bushings that attach the engine pylons to the wings of the aircraft in the new Airbus A-380, which is now undergoing certification. Other parts of the A-380, including components in the landing gear system, also contain this material. Airbus had received firm orders for 159 of the new A-380s as of the end of 2005.

Additionally, Alloy Products expects to participate in the new Airbus A-350 which is still in the design phase. Orders for this new plane are being received from airline companies around the world.



Perpendicular magnetic recording (PMR) holds more bits of data on a hard disk drive by utilizing vertical magnetic recording rather than the conventional horizontal technology. WAM materials are supporting the move to PMR.

WAM: *Supporting the Move to Perpendicular Recording*

Over the past decade, changes in consumer electronics technology have led to a proliferation in affordable electronics, such as digital video cameras, cell phones, video game consoles, PDAs and auto navigation systems. Demand for the hard disk drives that power these devices is expected to climb at compound annual growth rates of up to 35% through 2007, according to industry experts.

Perpendicular magnetic recording (PMR), the newest breakthrough in hard disk drive recording technology, is beginning to launch the next generation of even smaller, higher-capacity digital devices. PMR is projected to eventually replace the traditional longitudinal magnetic recording (LMR) technology, which is reaching its limit in recording density.

With PMR, more bits of data can be recorded onto each square inch of disk space by using vertical magnetic recording rather than the conventional technology that stores magnetic data on a horizontal plane of the hard drive media. When fully realized, this technology will allow a 10-fold increase in

1939

Brush supplies material for the laboratory work of the Manhattan District Engineering Project

1942

Brush Beryllium critical to World War II effort

1947

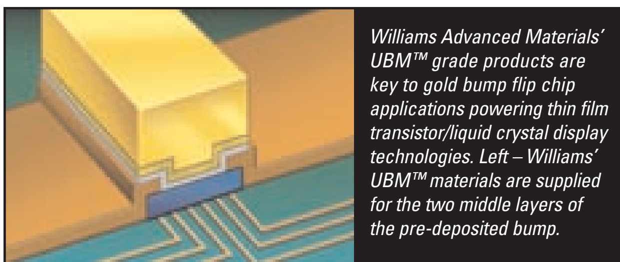
Headquarters and R&D moved to Perkins Avenue in Cleveland, Ohio

the amount of data that can be packed onto the same size disk, enhancing the capability of cell phones, for example, to receive television programs transmitted via the Internet.

Williams Advanced Materials Inc. (WAM), a long-time supplier of physical vapor deposition materials to the read-write magnetic head part of the disk drive, has lined up to support its customers' investment in this evolving market sector. WAM has developed a competitive package of complex thin film materials for PMR that are either qualified or are close to gaining acceptance at key customer locations around the world.

Eventually, most hard disk drive applications may use PMR technology. Initially, PMR may be focused on applications like phones and MP3 players that are the most compact.

Williams' refining, recycling and parts cleaning capabilities complement its materials offering and provide customers with a unique range of materials and related services.



Williams Advanced Materials' UBM™ grade products are key to gold bump flip chip applications powering thin film transistor/liquid crystal display technologies. Left – Williams' UBM™ materials are supplied for the two middle layers of the pre-deposited bump.

New Thin Film Materials for Advanced Semiconductor Technology

Building on its physical vapor deposition capabilities, WAM is generating demand for a new grade of thin film materials that support the semiconductor market's growing flip chip integrated circuit technology.

The flip chip, or chip scale packaging, offers a cost-effective, manufacturable and reliable design alternative to traditional microelectronic packaging materials. It is especially well suited to high technology applications with high-density and fine-pitch input/output electrical interconnections like liquid crystal displays for today's televisions. In a flip chip package, the silicon wafer is flipped over and directly connected to the circuit board using pre-deposited "bumps" that act as both the mechanical and electrical interconnection.

Williams has emerged as a leading supplier of materials for the under bump metallization (UBM) layers critical to flip chip performance. In 2003, WAM introduced UBM™ grade materials engineered to optimize performance in wafer level packaging processing.

After rigorous qualifications, Williams has gained, or expects to gain, acceptance at major customers in China and throughout Asia, as well as North America and Europe.

UBM™ grade materials display a uniform, fine-grain size that improves overall thin film uniformity. Gaseous impurities have also been further reduced, resulting in extremely consistent thin film electrical properties. All of this adds up to enhanced device performance and greater semiconductor wafer yield.

Still a leading supplier of traditional microelectronic packaging materials using bond wire technology, Williams introduced the UBM™ grade to give customers a full product offering.

NASA Telescope Coming into Focus

What will be the largest telescope to fly in space is one key step closer to completion.

In 2005, ahead of schedule, Brush Wellman's Beryllium Products group delivered the final beryllium blanks that will make up the primary mirror of the James Webb Space Telescope (JWST). The telescope is the follow-on mission to NASA's Hubble Space Telescope and is much more technologically advanced.

The JWST's 18 mirror blanks, the largest ever produced in beryllium, started out at about 550 pounds each. At Axsys Technologies, Inc. in Alabama, they are being machined down to 46-pound honeycomb mirror segments. Later, SSG Tinsley in California will polish and test the six-sided mirrors. Brush Wellman, Axsys and Tinsley are project partners under the lead optical contractor, Ball Aerospace & Technologies Corp. Northrop Grumman Space Technology, the prime contractor to NASA, will assemble and test the telescope.

Brush produced the primary mirror blanks, as well as three smaller beryllium mirrors and structural parts integral to the JWST, at its Elmore, Ohio facility under a material supply contract with Ball valued at more than $18 million. Beryllium was selected because of its superior properties that will allow the telescope to operate at temperatures of nearly minus 400 degrees Fahrenheit deep in space. Launch date is now estimated to be in 2013.

1948

Brush suffers devastating fire at its Lorain, Ohio facility

1950

Brush begins beryllium operations in Luckey, Ohio as government contractor; sales reach $3.8 million

1953

Brush opens its Elmore, Ohio alloy facility to replace production lost at Lorain five years earlier

The acquisition of OMC Scientific (OMC) in Ireland in 2005 has allowed Williams Advanced Materials to significantly broaden its service offering for shield cleaning services for the physical vapor deposition and other industries. An employee at OMC inspects a chamber part that has been cleaned.

1956

Brush initiates stock offering and begins trading

1957

Brush purchases Penn Precision Products in Reading, Pennsylvania and begins rolling copper beryllium strip; capital expansion at Elmore adds beryllium metal capacity

1961

Brush Beryllium moves to its new headquarters on St. Clair Ave. in Cleveland

A WINNING STRATEGY
Expanding our Global Reach

Growth in Step with the Customer

With a long tradition of serving global customers, Brush businesses continue to make a number of strategic moves to better serve the rapid migration and advancement of manufacturing overseas, and to capture the emerging demand from within those regions. By opening new manufacturing and service centers, installing technical support and focusing or redeploying resources, we've geared up to be a valued supplier wherever the demand is generated.

Alloy Products – a Wider Footprint

To accommodate the accelerated movement of strip customers' manufacturing to Taiwan, Korea and especially China, Brush has expanded its Asian regional network of Brush International technical marketing centers, staffed with fully trained local engineers to provide application engineering support at the design and usage points. Materials supply is made from a stocking service center in Japan or by Alloy distributors in Hong Kong, China, Taiwan and Korea – usually within a few days of the order. Market development activities are also being ramped up in Asia to respond to the shift of complex engineering components for oil and gas, aerospace and automotive markets.

In Europe, Brush is an established leader in providing high performance strip products to the automotive connector market, and bearing and bushing materials for the continent's well established and growing aerospace industry. Alloy bulk products personnel support the new aircraft platforms as well as the maintenance and repair of the existing fleet – both commercial and military – with material and expertise. Local European distribution capabilities provide customers with a reliable and highly responsive supply source.

Across the truly global oil and gas industry, Alloy Products supports its customers' needs with local personnel and corporate experts servicing all the major oil industry centers in North and South America, Europe, the Middle East, India, Australia and Asia. Brush's oil field products are sold globally – sometimes within hours of the order if necessary – via the Company's service centers and distributors in North America, Continental Europe, the United Kingdom, Japan, Taiwan and China.

WAM – Anticipating Growth Where It Occurs

For Williams Advanced Materials Inc. (WAM), 2005 international sales expanded 40% over 2004's level. The group had significant growth in both Asia and Europe throughout the year, with Asian demand boosted by industry growth and market share gains in under bump metallization and magnetic media materials.

With finishing operations already in Singapore, Subic Bay, Philippines and Taiwan, WAM further strengthened its global position in 2005 through the acquisition of OMC Scientific Holdings Limited (OMC) of Limerick, Ireland. The acquisition enables WAM to augment its existing physical vapor deposition materials business with significantly enhanced service capabilities and an extended geographic reach throughout Ireland, the United Kingdom and Continental Europe. OMC Scientific Holdings' unique technology also augments WAM's existing service capabilities in North America.

Williams continues to expand its organizational and operational capabilities worldwide. In 2005 and early 2006, sales and marketing offices were opened in Korea and Japan to accelerate WAM's Asian growth. In Eastern Europe, WAM will provide shield kit cleaning services to customers from a new facility, expected to come on stream later in the year.

TMI – Establishing Manufacturing Platform in Asia

Technical Materials, Inc. (TMI) serves the European and Asian markets with high performance material systems by export.

TMI is taking steps to meet the increased demand in Asia, where demand is strong for its products, by ramping up its marketing organization and manufacturing capabilities in the region. Applications in Asia are currently centered on micromotor materials and high reliability semiconductor materials.

In China, TMI has added application engineering capabilities and plans to establish a partnership to begin manufacturing clad metal products there in 2006.

1961

Alan Shepard, Jr., the first American to journey into space, returned safely to earth with a shield of beryllium from Brush protecting his Mercury capsule

1964

A.J. Foyt wins Indianapolis 500 with a set of "heat loving, weight saving" beryllium brakes from Brush

1969

Brush develops bertrandite ore deposits in Utah with construction of a new ore mine and processing mill in Utah

1970

Sales reach $40.9 million

A WINNING STRATEGY

Mobilizing Resources to Achieve Operational and Commercial Breakthroughs

An operator at Technical Materials, Inc. (TMI) in Lincoln, Rhode Island checks clad strip that will ultimately be stamped into micromotor electrical components. Lean Sigma initiatives at TMI have led to improved operating efficiencies with significant cost and quality benefits.

Lean Sigma, the combination of lean manufacturing techniques with Six Sigma principles, is producing impressive results across the Brush organization, including improved operations and supply chain management, customer service and new product development.

The Company's Lean Sigma initiative is focusing on solving complex problems to improve key business processes with the goal of reducing scrap, reducing lead times, improving yields and cutting energy costs. Projects have also lowered in-process inventory and improved on-time delivery rates.

As the lean methodology is adopted across Brush, it is also being extended into new areas. Its innovative Design for Six Sigma methodology, for example, benefits customer support and new product development projects by implementing solutions that provide value and meet targeted customer needs at the lowest possible cost.

The Lean Strategy at Work in Alloy Products

In Alloy Products, the numbers demonstrate the program's results:

Performance Improvements 2002 – 2005

- Yields – up 12%
- Productivity – up 18%
- Inventory days on hand – down 41%
- Overhead costs – down 20%

Early 70's

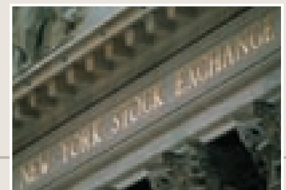
Brush targets mainframe computer and auto electronics markets; launches international expansion

1971

Makes first major acquisition-purchase of Wellman division of Abex Corp. and forms S.K. Wellman; name changed to Brush Wellman Inc.

1972

Listed on the New York Stock Exchange



Strengthening Customer Service and Adding Value

Finite Element Analysis (FEA), a computer modeling process used to design electronic components, is provided to Alloy Products' customers worldwide to provide the maximum value from Brush. Lean Sigma methods were used to analyze the FEA data exchange process, leading to a reduction in the time and cost to run the analysis. In turn, the average FEA response time dropped to 4 days from 24, markedly improving service to the customer.

Enhancing Strip Product Flow

In the Reading, Pennsylvania plant, a Lean Sigma project improved material flow through the facility and increased mill hardening capacity. Using Lean Sigma tools, the set-up time on the mill hardening line was cut by over 50% which opened up nearly 20% of the mill's weekly capacity. This allowed the plant to accept additional orders and generate more revenue while improving the processing of standard anneal products.

International Supply Chain

Due to higher customer demand from Asia, a Lean Sigma project was launched to trim the time required to move products from the Company's U.S. plants to its service centers in Asia. Applying lean tools, improvements were made to supplier agreements, work procedures and communication throughout the supply chain. As a result, shipment times were reduced by an average of 19%, which will ultimately lower working capital requirements through reduced inventories.

Adding to the ToughMet® Family with Lean Sigma

Using its patented Equicast® process, Alloy Products produces the ToughMet® family of copper-nickel-tin alloys. Using lean techniques, the variation of properties in ToughMet extruded products was reduced by over 50%. Another lean project reduced lead times. Two new ToughMet products, TS tube and rod, were also developed using Design for Six Sigma.

Opening the Door to Savings at Ceramics

Brush Ceramic Products has developed an active Lean Sigma process to lower costs, improve quality and launch new products. By the end of 2006, over 20% of the facility's employees will be trained in the Lean Sigma approach.

In 2005, Brush Ceramic's commitment to the process enabled it to earn the rigorous ISO 9001:2000 registration in less than a year, well ahead of comparable registrants. It also received a coveted supplier award during the year from Kyocera, one of its largest customers.

Continuous Improvements at TMI

At Technical Materials, Inc., (TMI), the Lean Sigma methodology has played an important role in helping the business develop new products and expand its capabilities into new growth markets. Thirty years ago, TMI was largely focused on the domestic telecommunications market. Today, it is a more diversified supplier into a range of high technology markets.

TMI credits Lean Sigma for continuous improvements in product offerings and factory efficiencies, and for competitive differentiation.

Advances in equipment capability, coupled with new process developments, have allowed TMI to gain ground in the critical Asian market. Joint efforts with Williams Advanced Materials Inc. (WAM) have resulted in improved precious metal alloy performance of the micromotor electrical contacts.

Turning to lean methods, TMI has also developed a sophisticated plating process that selectively applies a unique coating of nickel and phosphorous that when combined provides a low cost wire bondable lead frame. This new wire bondable material system serves the growing automotive sensor and electronics markets.

Thinking Lean at Williams Advanced Materials

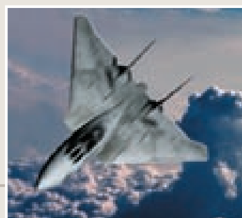
Employing lean practices, WAM made significant progress reducing costs and improving quality in 2005. A lean project to increase throughput and final product yields in a rolling and stamping operation for cell phone microelectronics windows led to a total tooling change that dramatically increased throughputs and finished product yields. The savings opportunity is substantial given that WAM produces tens of millions of these miniature gold-tin alloy windows each year.

In another project, this process led a WAM team to achieve a finer grain composition in physical vapor deposition materials – reducing costs, improving yields, and meeting customer needs for greater product consistency in a key growth market for WAM.

Following the success of its initial lean projects at its Buffalo, New York operation, Williams Advanced Materials is exploring other locations where the concept can be applied for operational, customer service or product design improvements.

Mid 70's

Receives substantial orders from the U.S. Navy for anti-submarine aircraft, the F-14 fighter jet and the Poseidon missile program



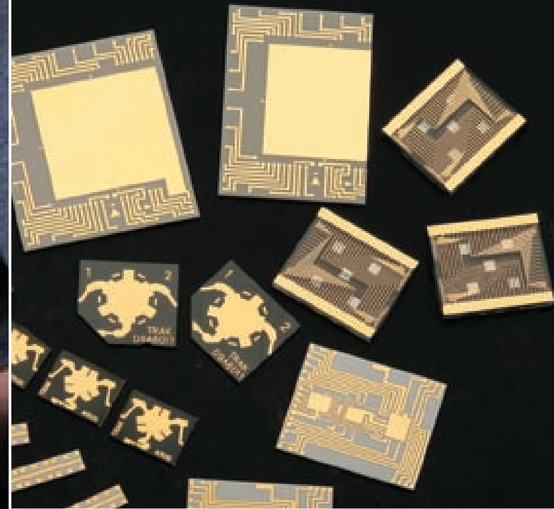
1980

New beryllium ceramics facility opens in Tucson, Arizona; Brush sales reach $130 million

1982

Acquires Technical Materials, Inc. in Lincoln, Rhode Island

A series of acquisitions at Williams Advanced Materials (WAM) augments the Company's physical vapor deposition (PVD) and window assembly businesses. Sputtering targets made by WAM in Brewster, New York (left and bottom) supply Thin Film Technology (TFT). Materials made by CERAC are used by TFT and other customers in the production of components (below middle and next page) throughout the precision optics, ophthalmics, semiconductor, security and laser industries.



1986

Acquires Williams Gold Refining Company, Inc., later to become Williams Advanced Materials Inc.

Early 90's

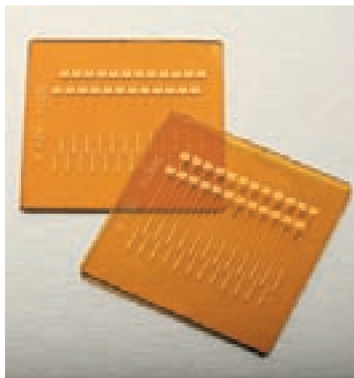
With end of Cold War and shift from central computers, Brush transforms to capture new growth in personal computer, auto electronics and telecommunications markets

1996

Brush invests $120 million for Elmore Alloy Expansion Project

A WINNING STRATEGY
Building Synergies through Smart Acquisitions

Over the past year, Williams Advanced Materials Inc. (WAM) has made a series of niche acquisitions in support of its physical vapor deposition (PVD) and microelectronic packaging businesses. These strategic additions build on WAM's reputation as a leading producer of thin film materials and provider of optical window assemblies for wireless and photonics applications. The addition of these businesses will generate an estimated $37 to $39 million in Williams' 2006 sales and contribute significantly to its operating profit.



By acquiring OMC Scientific Holdings Limited (OMC) and Thin Film Technology, Inc. (TFT) in 2005, and CERAC, incorporated, early this year, WAM has strengthened its size and scale across the supply chain in several high growth market sectors.

With the purchase of Ireland-based OMC, Williams can now provide additional services for PVD customers throughout Ireland, the United Kingdom and Continental Europe. OMC Scientific Holdings' unique technology also enhances WAM's existing service capabilities in North America.

The acquisition of California-based TFT strengthens WAM's capabilities in the PVD arena and in the market for window assemblies that hermetically seal optoelectronic devices. TFT is a leading provider of precision optical coatings, photolithography, thin film hybrid circuits and specialized thin film coatings and services. It has developed unique capabilities to deposit films required in high technology applications, including infrared and infrared optics. As a strategic business partner with WAM prior to its acquisition, TFT has applied coatings to Williams' Visi-Lid™ window assemblies. The company has a diverse range of customers serving defense, medical and other growing commercial markets.

In January 2006, Williams purchased CERAC for approximately $25 million. Based in Milwaukee, CERAC produces PVD and specialty inorganic materials for the precision optics, ophthalmics, semiconductor, security, and laser and display technologies industries. CERAC's chemistry capabilities complement Williams' long-standing strength in metallurgy. Adding to the WAM and TFT synergies, materials that are used by TFT to coat the lenses for Visi-Lid assemblies are produced by CERAC.

"Williams is excited about the opportunity to achieve greater scale, reduce supply chain costs and leverage combined R&D efforts across a broader, unrivaled product range," said WAM President, Dick Sager. "We are already seeing the benefits of these acquisitions in lower overall product costs and our ability to provide additional value to our customers worldwide."

1998

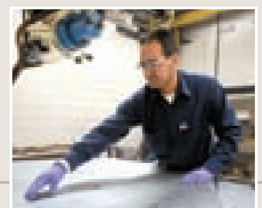
Brush's Williams Advanced Materials subsidiary acquires PureTech Inc., significantly expanding its physical vapor deposition materials capabilities

2000

Brush Engineered Materials Inc. becomes the new holding company; sales reach $563.7 million

2003

Brush Wellman receives $18 million order to build beryllium blanks for NASA's James Webb Space Telescope



MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

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

Sales increased once again in 2005, growing 9% over 2004. Following significant declines in 2001 and 2002, sales have grown $168.5 million, or 45% over the last three years. This growth has primarily resulted from improved conditions in our key markets, market share gains, new product development and geographic expansion.

Despite the $45.0 million improvement in sales in 2005, gross margin declined $0.8 million in 2005 from 2004. The increasing cost of copper, a key raw material in a number of our products, was a major factor in the margin decline. Competitive pressures and other factors have prevented us from passing this higher cost on to customers in all cases, thereby hampering margins. The cost of other raw materials and commodities increased as well in 2005. The margin growth was also hindered by an unfavorable change in product mix as sales from various higher margin-generating product lines declined and/or did not grow as fast as other products.

Expenses increased slightly in 2005, largely in support of the higher sales level. We also continued to expand our sales and marketing efforts in the international markets, particularly in Asia. Expenses as a percent of sales, however, have declined in each of the last two years.

We reduced our outstanding debt by $15.3 million in 2005. We prepaid our high rate subordinated debt in December 2005 after retiring our term notes early in January 2005. As a result of implementing these debt reducing actions, which will generate significant interest savings in 2006, we recorded a prepayment penalty and write-off of deferred costs totaling $4.4 million.

Operating profit was $19.5 million in 2005, a reduction of $5.5 million from 2004 as a result of the debt prepayment charge and changes in the margin and expense levels.

Based upon our analysis, we determined that it was more likely than not that we would be able to realize an additional $5.9 million of our deferred tax assets and that amount of the valuation allowance was reversed back to income in the fourth quarter 2005.

As a result, net income was $17.8 million in 2005 compared to $15.5 million in 2004, a 15% improvement. Net income in 2005 was also a $31.0 million improvement over the net loss generated two years earlier.

Cash declined during 2005, as in addition to reducing debt, we used our excess cash and the cash flow generated during 2005 to fund two small acquisitions, capital expenditures and a contribution to our defined benefit pension plan.

Other key operating metrics improved or remained strong in 2005. Inventory turns increased in 2005 while accounts receivable collections remained timely with bad debts being minor. The debt to debt-plus-equity ratio improved once again in 2005 and the balance sheet leverage has been reduced. Employment levels increased slightly due to the acquisitions, but sales per employee grew for the third consecutive year.

RESULTS OF OPERATIONS

(Millions, except for share data)	**2005**	2004	2003
Net sales	**$ 541.3**	$ 496.3	$ 401.0
Operating profit (loss)	**19.5**	25.0	(8.9)
Net income (loss)	**17.8**	15.5	(13.2)
Diluted E.P.S.	**0.92**	0.85	(0.80)

Sales of $541.3 million in 2005 were 9% higher than sales in 2004 and represent the second highest annual sales level in our history. Sales have grown over the comparable quarter in the prior year for 12 consecutive quarters and sales in each quarter of 2005 were higher than the preceding quarter. Domestic and international sales both grew 9% in 2005 over 2004. Sales in 2004 of $496.3 million improved 24% over 2003, with domestic sales growing 20% and international sales 32%.

The growth in sales in 2005 resulted from improved demand from several of our key markets. Demand from the magnetic and optical data storage market grew 30% in 2005 after growing 10% in 2004. The overall demand from the telecommunications and computer market was up modestly in 2005, primarily in the second half of the year, with various individual sectors showing different degrees of improvement. We believe that a portion of the softer demand from this market in the first half of 2005 was due to a downstream inventory correction. In 2004, sales to the telecommunications and computer market, our largest market, grew significantly. Demand from the appliance and medical markets, two smaller markets, grew 42% and 63%, respectively, in 2005 after growing at more modest rates in 2004. Sales for the James Webb Space Telescope, which were substantially completed in 2005, contributed to the sales growth in both 2005 and 2004 as compared to the prior year. Absent the Webb sales, other aerospace and defense shipments were only slightly higher in 2005 than 2004 and these sales slowed down in the second half of the year. Aerospace and defense sales were stronger in 2004 than in 2003. Automotive electronics demand declined 10% in 2005 after growing 10% in 2004. In addition to the improved overall demand, we continued to grow our sales through the development of new products and applications and improving our share in various existing markets or applications.

Sales are affected by metal prices as changes in precious metal and a portion of the changes in base metal prices, primarily copper, may be passed on to our customers. Sales may also be impacted by foreign currency exchange rates, as changes in the value of the dollar relative to the euro, yen and pound sterling will affect the translated value of foreign currency denominated sales. Metal prices were higher in 2005 and 2004 than in the respective prior years while the dollar on average compared to the currencies in which we sell was slightly stronger in 2005 than 2004 and weaker in 2004 as compared to 2003. As a result, we estimate that these two factors combined accounted for $9.7 million of the $45.0 million growth in 2005 sales and $19.8 million of the $95.3 million growth in 2004 sales.

The sales order backlog was $111.6 million at December 31, 2005, an increase of 12% from the start of the year. The backlog as of year-end 2004 had also grown 11% over year-end 2003. The sales order entry rate strengthened in the second half of 2005 and has continued to be strong in early 2006.

The gross margin was $110.2 million, or 20% of sales, in 2005, $111.1 million, or 22% of sales, in 2004, and $73.0 million, or 18% of sales in 2003. The gross margin declined slightly in 2005 from 2004, as the benefits from the higher sales volume were more than offset by the impact of the increased cost of copper and an unfavorable product mix shift. The cost of copper increased significantly throughout 2005, as it did in 2004, and the higher cost could not be passed through to customers in all cases, thereby reducing margins by approximately $2.7 million. The cost of other commodities, including nickel, was higher in 2005 than in 2004 as well. The change in product mix was unfavorable in that sales of products that generate lower margins increased more than the higher margin products. Manufacturing overhead expenses were slightly lower in 2005 than 2004.

The higher level of sales was the major cause of the margin improvement in 2004 over 2003. The change in product mix had a favorable impact on margins in that year. Manufacturing efficiencies improved in 2004 as compared to 2003, particularly in the first half of the year. Margins also improved in 2004 over 2003 as a result of the refinancing in December 2003. Equipment that previously had been leased was purchased with proceeds from new loans; the resulting depreciation expense in 2004 was $6.0 million less than the lease expense in cost of sales in 2003. Offsetting a portion of these margin benefits was the negative impact of the higher cost of copper, to the extent that the additional cost could not be passed through to customers, and an increase in other manufacturing overhead expenses.

Selling, general and administrative expenses (SG&A) were $78.5 million in 2005 (14% of sales), $77.3 million (16% of sales) in 2004 and $68.8 million (17% of sales) in 2003. Expenses incurred by the two new businesses acquired by Williams Advanced Materials Inc. (WAM), a wholly owned subsidiary, in 2005 totaled $1.4 million. Overseas expenses incurred by Brush International, Inc., a wholly owned subsidiary, were $1.8 million higher in 2005 than 2004 as a result of expanded efforts to penetrate the overseas markets; most of this increase was for third-party sales commissions and manpower-related costs. Changes in the value of the dollar relative to the applicable foreign currencies reduced the translated value of Brush International's expenses by $0.1 million compared to the prior year. The weaker dollar caused a $1.1 million increase in the translated value of these expenses in 2004 over 2003. Various domestic sales-related expenses increased in each of the last two years in support of the higher sales volumes while compliance costs with Section 404 of the Sarbanes-Oxley Act were $0.7 million higher in 2005 than 2004 after being $0.8 million higher in 2004 than 2003. Other corporate costs increased in 2005 as well. In 2004, we recorded one-time favorable movements in the legal reserve and insurance recoverable accounts related to the chronic beryllium disease litigation against us as a result of court rulings, settlements and other activity. The difference in the movements in these accounts caused an increase in expense of $0.5 million in 2005 as compared to 2004 and a $0.5 million lower expense in 2004 as compared to 2003. Other corporate legal costs were $1.5 million higher in 2005 than in 2004 after declining $0.7 million in 2004 from 2003. Offsetting a large portion of these increases in expenses in 2005 was a reduction in incentive compensation expense; approximately two-thirds of the increase in SG&A expenses in 2004 over 2003 was due to the higher incentive expense as a result of the improved profitability in that year.

Research and development expenses (R&D) were $5.0 million in 2005, $4.5 million in 2004 and $4.2 million in 2003. R&D expenses were approximately 1% of sales in each of the last three years. Approximately three-quarters of the R&D spending supports the Metal Systems Group and one-fourth supports the Microelectronics Group. R&D efforts are focused on developing new products and applications, as well as continuing improvements in our existing products.

The major components of ***other-net expense*** for each of the last three years are as follows:

	Income/(Expense)		
(Millions)	**2005**	2004	2003
Exchange losses	**$ (1.1)**	$ (1.8)	$ (0.9)
Directors' deferred compensation	**0.2**	(0.4)	(0.9)
Environmental reserve adjustment	**–**	1.0	–
Derivative ineffectiveness	**0.8**	(0.4)	(5.1)
Debt prepayment costs	**(4.4)**	–	(0.1)
Other items	**(2.8)**	(2.7)	(1.9)
Total	**$ (7.3)**	$ (4.3)	$ (8.9)

Foreign currency exchange losses result from movements in value of the U.S. dollar against the euro, yen and sterling and the maturity of hedge contracts. While exchange losses totaled $1.1 million in 2005, a strengthening dollar and the maturing contracts generated exchange gains of $1.0 million in the second half 2005. The income or expense on the directors' deferred compensation plan is a function of the outstanding shares in the plan and movements in the market price of our stock. In 2005, the share price declined, which reduced our liability to the plan and generated income. In 2003 and 2004, the stock price increased, creating an additional expense. The favorable environmental reserve adjustment in 2004 resulted from the sale of property formerly used by one of our subsidiaries whereby the buyer agreed to assume the associated environmental remediation liability.

Derivative ineffectiveness represents changes in the fair value of derivative financial instruments that do not qualify for the favorable hedge accounting treatment. As a result of the refinancing in December 2003, an interest rate swap that previously hedged the variable payments on an operating lease no longer qualified for hedge accounting treatment since the lease was terminated. The swap's fair value of a loss of $4.6 million was reversed out of equity and charged against income at that time, accounting for the majority of the ineffectiveness recorded in 2003. Subsequent changes in this swap's fair value were charged or credited to ineffectiveness in 2004 and 2005 as well. The debt prepayment cost of

$4.4 million in 2005 includes the penalty and write-off of associated deferred financing costs totaling $3.8 million from the prepayment of the $30.0 million subordinated debt in the fourth quarter and the write-off of $0.6 million of deferred financing costs from the prepayment of the $18.6 million term notes in the first quarter 2005. See debt disclosures in the Financial Position section of this Management's Discussion and Analysis for additional information.

Other-net expense also includes metal financing fees, which have increased slightly in each of the last two years, bad debt expense, cash discounts, gains and losses on the sale of fixed assets and other non-operating items.

Operating profit was $19.5 million in 2005, a 22% reduction from $25.0 million in 2004. The higher cost of copper, the unfavorable changes in product mix, the slightly higher expenses and the debt prepayment charge more than offset the margin benefit of the higher sales volumes. The 2004 operating profit was a $33.9 million improvement over the $8.9 million operating loss in 2003 as a result of the increased margins generated by the higher sales and other factors partially offset by higher copper costs and changes in other expenses.

Interest expense was $6.4 million in 2005, $8.4 million in 2004 and $3.8 million in 2003. The decline in interest expense in 2005 resulted from a reduction in the average level of debt outstanding, as the average borrowing rate was higher in 2005 than in 2004. A portion of the proceeds from the new share issuance in July 2004 was used to reduce debt in the second half of 2004 and cash was used to pay off the term notes in January 2005. Interest expense was higher in 2004 largely as a result of the December 2003 refinancing, as debt increased by over $50.0 million due to the purchase of previously leased assets with a portion of the loan proceeds. The higher interest expense in 2004 partially offsets the gross margin benefit generated by the refinancing previously discussed. The average borrowing rate was higher in 2004 than in 2003, primarily due to the high rate subordinated debt secured in December 2003. Amortization of deferred financing costs included in interest was $0.4 million lower in 2005 than 2004 and $1.1 million higher in 2004 than in 2003. Capitalization of interest expense associated with long-term capital projects was minor in each of the three years presented.

Income before income taxes was $13.1 million in 2005 compared to $16.7 million in 2004. In 2003, the loss before income taxes was $12.7 million.

The income tax expense (benefit) for 2005, 2004 and 2003, including the movement in the deferred tax valuation allowance, is summarized as follows:

	Expense (benefit)		
(Millions)	**2005**	2004	2003
Tax prior to valuation allowances	**$ 3.4**	$ 10.4	$ (4.7)
Valuation allowance	**(8.1)**	(9.3)	5.3
Total tax expense	**$ (4.7)**	$ 1.1	$ 0.6

In calculating the tax expense or benefit prior to movements in the valuation allowance, the effects of foreign source income and percentage depletion were major causes of the differences between the effective and statutory rates for all three years. The impact of the company-owned life insurance program also caused a significant difference between the effective and statutory rates in 2004 and a more minor difference in 2003. See Note O to the Consolidated Financial Statements for a reconciliation of the statutory and effective tax rates.

The deferred tax valuation allowance was initially recorded in accordance with Statement No. 109, "Accounting for Income Taxes", which requires a company to evaluate its deferred tax assets for impairment in the event of recent operating losses. This evaluation process is not based upon the specific expiration date of the individual deferrals but rather on the company's ability to demonstrate future taxable income will result in utilization of those assets. As a result of a review in the fourth quarter 2002, we determined that it was more likely than not that the majority of our deferred tax assets were impaired and a valuation allowance was recorded accordingly.

Subsequent to 2002, the valuation allowance was either increased to offset the creation of additional deferred tax assets, as was the case in 2003, or reduced for the use of deferred tax assets as in 2004 and 2005. In 2005, in addition to reducing the valuation allowance $2.2 million for the use of net operating losses, we also reduced the valuation allowance by $5.9 million as, based upon the earnings trend of the past two years as well as various projections, we determined that it was more likely than not that we would utilize this additional portion of our deferred tax assets in future periods.

The resulting net tax expense (benefit) on the Consolidated Statements of Income for each of the years includes taxes for state, local and certain foreign jurisdictions that were not affected by the valuation allowance. The tax expense also included minor amounts for the alternative minimum tax in 2005 and 2004. The deferred tax valuation allowance on the balance sheet was also adjusted in each of the last three years for the deferred tax assets associated with items in other comprehensive income (OCI) within shareholders' equity. These adjustments were recorded in OCI and did not affect net income.

As a result, ***net income*** was $17.8 million, or $0.92 per share, in 2005 compared to $15.5 million, or $0.85 per share, in 2004 and a net loss of $13.2 million, or $0.80 per share, in 2003.

Segment Disclosures

We aggregate our businesses into two reportable segments – the Metal Systems Group and the Microelectronics Group. Beginning in 2005, Brush Resources Inc., a wholly owned subsidiary that manages our mining and milling operations in Utah, is included in the Metal Systems Group while previously it had been included in the "All Other" column in the segment reporting details. We made this change because we believe that the operating issues affecting Brush Resources, the management of the

operations and the flow of materials are more closely aligned with the Metal Systems Group, and this change is more reflective of how the operations are now managed. The segment results for the prior-year comparisons have been restated to reflect this change. Our parent company and other corporate expenses, as well as the operating results from BEM Services, Inc., a wholly owned subsidiary, are not part of either segment and are shown in the "All Other" column in the segment results contained in Note M to the Consolidated Financial Statements. BEM Services charges a management fee for the services it provides, primarily corporate, administrative and financial oversight, to our other businesses on a cost-plus basis.

The operating loss within All Other increased in 2005 over 2004 as a result of the $4.4 million debt prepayment costs and higher corporate legal and Sarbanes-Oxley Act compliance costs offset in part by lower corporate incentive compensation expenses. The operating results within All Other improved in 2004 over 2003 due to charges associated with the refinancing in 2003 totaling $6.0 million, $2.0 million in savings resulting from winding down and terminating the company-owned life insurance program in 2004 and lower corporate legal and other costs. Audit and related costs associated with compliance with Section 404 of the Sarbanes-Oxley Act were higher in 2004 than 2003 as well.

Metal Systems Group

(Millions)	**2005**	2004	2003
Net sales	**$ 306.3**	$ 300.7	$ 243.7
Operating profit (loss)	**6.3**	4.5	(16.4)

The Metal Systems Group, which is the larger of the two reportable segments and accounts for over 55% of total sales and over two-thirds of total assets, consists of Alloy Products, Technical Materials, Inc. (TMI), a wholly owned subsidiary of the Company, Beryllium Products and Brush Resources. These units manufacture a variety of engineered materials that provide superior performance in demanding applications and compete against beryllium and non-beryllium-containing alloys and other material systems and composites. Because of their superior performance, these materials are often premium priced. The Elmore, Ohio facility manufactures finished goods for Alloy Products and Beryllium Products as well as materials for further processing and sale by other operations within Alloy, Beryllium and TMI. Customers typically use the Company's materials as their raw material input and are also usually one or more tiers removed from the end-use demand generator in a given market. After sales bottomed out in 2002, primarily due to softness in the telecommunications and computer market, sales grew in each of the last three years. As a result of the higher sales and other operating improvements, the Metal Systems Group generated profits of $6.3 million in 2005 and $4.5 million in 2004 after recording a loss of $16.4 million in 2003.

Sales to external customers by business unit within the Metal Systems Group during the three-year period ended December 31, 2005 were as follows:

(Millions)	**2005**	2004	2003
Alloy Products	**$ 208.2**	$ 202.9	$ 162.3
Technical Materials, Inc.	**49.9**	53.6	41.9
Beryllium Products	**42.6**	39.5	35.2
Brush Resources Inc.	**5.6**	4.7	4.3
Total segment sales	**$ 306.3**	$ 300.7	$ 243.7

Alloy Products

Alloy Products, the largest business within the Metal Systems Group, manufactures and sells copper and nickel-based alloy systems metallurgically tailored to meet customers' specific performance requirements. Strip products, the larger of Alloy's two main product families, includes thin gauge precision strip and thin diameter rod and wire. These products provide a combination of high conductivity, high reliability and formability for use as connectors, contacts, switches, relays and shielding. Major markets for strip products include telecommunications and computer, automotive electronics and appliance. Alloy's other major product family is bulk products, which includes plate, rod, bar, tube and other customized forms that, depending upon the application, may provide superior strength, corrosion or wear resistance or thermal conductivity. Applications for bulk products include plastic mold tooling, bearings, and bushings for aerospace and heavy equipment, welding rods, oil and gas drilling components, and telecommunications housing equipment. The majority of Alloy Products, including all strip products, are beryllium-containing alloys. Alloy Products are manufactured at our facilities in Ohio and Pennsylvania and are distributed worldwide through a network of company-owned service centers and outside distributors and agents.

Sales from Alloy Products of $208.2 million in 2005 were 3% higher than sales of $202.9 million in 2004. The sales growth in 2005 was due to bulk products as strip sales declined slightly. Sales in 2004 were $40.6 million higher than sales of $162.3 million in 2003, a 25% improvement as sales of both strip and bulk products grew in that year over the previous year.

Strip product shipment volumes declined 4% in 2005 after growing 19% in 2004. Shipments of thin diameter rod and wire products, which had shown double-digit growth in the prior two years, declined in 2005. Shipments of higher beryllium-containing strip products also declined in 2005 while shipments of the lower beryllium-containing alloys were essentially flat. The strip sales growth in 2004 was across both the higher and lower beryllium-containing alloys.

The volume of bulk products shipped grew 9% in 2005 over 2004 as shipments of both traditional beryllium-containing alloys and non-beryllium-containing alloys increased. Shipments of bulk products volumes were 33% higher in 2004 than in 2003, with shipments growing significantly in the second half of 2004.

The growth in Alloy sales in 2005 was fueled by increased demand from the appliance and aerospace markets. Non-beryllium-containing alloy sales into the heavy equipment market contributed to the sales increase in 2005 and 2004. Sales in 2005 into the telecommunications and computer market were unchanged from 2004 after increasing significantly in 2004 over 2003. Automotive electronic sales softened in 2005 after improving in 2004. Overall sales into the industrial components market were off slightly in 2005 from 2004, but portions of this market showed improvements in 2005.

International sales accounted for the growth in Alloy Products sales in 2005 as domestic sales declined. Domestic sales had improved in 2004, rebounding from a slight decline in 2003. International sales of Alloy Products have improved three years in a row, reflective of the increased sales and marketing efforts designed to capture additional portions of the growing overseas markets, particularly Asia.

Technical Materials, Inc.

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

TMI sales of $49.9 million in 2005 were 7% lower than sales in the previous year, while sales of $53.6 million in 2004 were $11.7 million, or 28%, higher than 2003. The inlay and plating product lines showed the largest declines in 2005. All of TMI's major product lines contributed to the growth in 2004, with plated products accounting for over 40% of the growth.

Demand for TMI products from the automotive industry was soft the last three quarters of 2005 while demand from telecommunications and computer showed signs of improvements in some areas in 2005, but was still down for the year. We believe a portion of the weakness in the telecommunications and computer market in 2005 was due to a temporary downstream inventory correction. The sales growth in 2004 over 2003 was largely due to the stronger demand from these two markets.

The continued development of new disk drive arm applications for computers added to sales in 2005, and this application provides a long-term growth opportunity for TMI. Development work on new products and applications that serve TMI's large existing markets as well as new emerging markets, including the energy market and medical products, also had a positive impact on sales in 2005, which helped to offset a portion of the decline in sales of traditional products. Examples of these new applications include materials for fuses and micromotors. TMI is also expanding its international efforts and presence, particularly in Asia, as production capacity within portions of the traditional markets served by TMI continues to be transferred overseas. TMI's new sales order entry rate strengthened late in the fourth quarter 2005 and we anticipate that shipments of TMI products will improve in the first quarter 2006.

Beryllium Products

Beryllium Products manufactures beryllium-based metals and metal matrix composites in rod, tube, sheet, foil and a variety of customized forms at the Elmore, Ohio and Fremont, California facilities. These materials are used in applications that require high stiffness and/or low density and they tend to be premium priced due to their unique combination of properties. Defense and government-related applications, including aerospace, is the largest market for Beryllium Products, typically accounting for over 60% of sales, while other markets served include medical, telecommunications and computer, electronics (including acoustics), optical scanning and performance automotive.

Sales from Beryllium Products were $42.6 million in 2005, an 8% improvement over 2004 and the sixth consecutive year of growth. Sales in 2004 of $39.5 million were 12% higher than the sales in 2003.

Sales of materials for the James Webb Space Telescope program totaled $12.1 million in 2005 and $5.9 million in 2004. Shipments under the initial material supply contract were completed in the second quarter 2005, but we continued to ship smaller quantities of additional materials for the telescope in the last half of the year. Shipments for the Webb telescope will be significantly lower in 2006 than in 2005 as this program for us is substantially complete.

Sales for other defense and government-related applications were strong throughout 2003 and 2004 and into the early part of 2005 as well. Defense platforms for Beryllium Products are mainly aerospace and missile system applications. However, government budget revisions diverted funds away from these types of applications in order to provide additional support for current military ground operations. Applications that utilize our materials were delayed and in some cases reduced. As a result, defense and government sales, other than the Webb telescope, softened in the last half of 2005 with the softening continuing into the first quarter 2006.

Sales to the medical market, including X-ray window applications, which were strong in 2004, softened slightly in 2005. Sales to the electronics market for acoustic components were relatively unchanged throughout the three years. As expected, performance automotive sales, after declining in 2004 from the 2003 level, were significantly lower in 2005 than in 2004.

Brush Resources

Brush Resources' milling operations produce beryllium hydroxide from mined bertrandite ore and purchased beryl ore. See the Ore Reserve section of this Management's Discussion and Analysis for additional

information. The hydroxide is used primarily as a raw material input by the other businesses within the Metal Systems Group. Brush Resources also had external sales of hydroxide totaling $5.6 million in 2005, $4.7 million in 2004 and $4.3 million in 2003.

Metal Systems Gross Margin and Expenses

The gross margin on Metal Systems' sales was $68.7 million (22% of sales) in 2005 compared to $72.4 million (24% of sales) in 2004. While the higher volumes generated approximately $1.7 million of additional margin in 2005, this benefit was more than offset by the higher cost of copper that could not be completely passed through to customers and unfavorable changes in product mix. The product mix shift was caused primarily by lower sales of higher margin thin diameter rod and wire products from Alloy in 2005 as well as various product mix shifts within TMI. TMI also incurred additional costs and inefficiencies associated with manufacturing various new products. Manufacturing overhead expenses were $1.4 million lower in 2005 than 2004 as a result of cost saving efforts at the Elmore and Lincoln facilities.

The gross margin on Metal Systems' sales in 2004 improved $31.6 million over the 2003 margin. As a percent of sales, the margin also improved from 17% to 24%. The higher sales volumes contributed an additional $21.3 million in margins in 2004. Operational improvements and manufacturing efficiencies, primarily at the Elmore facility, a favorable change in the product mix and the foreign currency translation expense generated $14.4 million in additional margin compared to 2003. The higher cost of copper in 2004 that could not be passed through to customers reduced margins by an estimated $7.5 million compared to 2003. The previously discussed $6.0 million margin benefit from the December 2003 refinancing flowed through Metal Systems' gross margin in 2004. Other manufacturing overhead costs, including manpower, maintenance and supplies, were higher in 2004 than in 2003.

SG&A, R&D and other-net expense within the Metal Systems Group were $5.5 million lower in 2005 than in 2004. Incentive compensation accruals were significantly lower in 2005 than in 2004 while net exchange losses declined as well. These benefits were partially offset by higher international sales-related and other marketing costs. R&D expenses were also slightly higher in the current year.

SG&A, R&D and other-net expense within the Metal Systems Group were $10.7 million higher in 2004 than in 2003. However, as a percent of sales, these expenses declined from 23% in 2003 to 22% in 2004. Increased incentive compensation accruals resulting from the improved profitability accounted for approximately 30% of the increase in expenses. Higher exchange losses and the majority of the unfavorable translation impact on the foreign subsidiaries' expenses contributed to the Group's expense increase in 2004. Other sales-related expenses, including commissions, travel and advertising and various administrative costs also were higher in 2004 than in 2003.

The Metal Systems Group generated a profit of $6.3 million in 2005 compared to a $4.5 million profit in 2004 and an operating loss of $16.4 million in 2003. Gross margins were lower in 2005 than in 2004 as the unfavorable mix and higher copper costs more than offset the benefits from the improved sales volume; however, the reduction in expenses was greater than the decline in margins. The significant improvement in profitability in 2004 over 2003 resulted from the growth in margins caused by the sales increase, product mix shift and improved manufacturing performance offset in part by the cost of copper and other expenses.

Microelectronics Group

(Millions)	**2005**	2004	2003
Net sales	**$ 234.9**	$ 195.6	$ 157.3
Operating profit	**19.0**	18.5	12.6

The Microelectronics Group includes Williams Advanced Materials Inc. (WAM), a wholly owned subsidiary, and Electronic Products. These businesses manufacture a variety of high quality precision parts that are sold to assemblers and other fabricators of electronic components and equipment. Sales grew 20% in 2005 over 2004 after growing 24% in 2004 over 2003. Operating profit, however, only improved slightly in 2005 after showing a significant improvement in 2004 compared to 2003. Sales to external customers by business unit within this group during the 2003 to 2005 time frame were as follows:

(Millions)	**2005**	2004	2003
Williams Advanced Materials Inc.	**$ 209.5**	$ 165.7	$ 127.8
Electronic Products	**25.4**	29.9	29.5
Total segment sales	**$ 234.9**	$ 195.6	$ 157.3

Williams Advanced Materials Inc.

WAM manufactures precious, non-precious and specialty metal products at its facilities in New York, California, Asia and Europe. Specific products include physical vapor deposition targets, frame lid assemblies, clad and precious metal preforms, high temperature braze materials and ultra fine wire. Physical vapor deposition-related products account for approximately 60% of WAM's business. Major markets for WAM's products include magnetic and optical data storage, medical and the wireless, semiconductor, photonic and hybrid segments of the microelectronics market. A key competitive advantage for WAM is its ability to reclaim precious metals, from its own or customers' scrap, through its in-house refinery. Due to the high cost of its precious metal products, WAM emphasizes quality, delivery performance and customer service in order to attract and maintain applications.

WAM's sales have grown significantly in each of the last two years. Sales of $209.5 million in 2005 were 26% higher than 2004 while 2004 sales of $165.7 million were 30% higher than sales in 2003. WAM adjusts its selling prices daily to reflect the current cost of the precious and non-precious metals sold. The cost of the metal is a pass-through to the customer and WAM generates its margin on its fabrication efforts irrespective of the type or cost of the metal used in a given application. Therefore, the cost and mix of metals sold will affect sales but not necessarily the margins generated by those sales. Metal prices increased on average in both 2005 and 2004 as compared to the respective prior year and the metal content increased as a percent of sales in 2005 as well, meaning that the underlying volume growth was less than the growth in sales.

Sales of physical vapor deposition targets grew in each of the last two years fueled by strong demand from the optical data storage market. Frame lid assembly sales also increased in each of the last two years. A portion of this growth is attributable to new product design and application development work. Applications for giant magnetic resistance film materials were strong in 2005 once again and remain a large market for WAM's products. Demand from the wireless and photonic segment of the microelectronics market for a variety of WAM's products, including targets, frame lids and wire, showed strong growth in 2005 after improving in 2004 as well. Development work continued for semiconductor applications for thin film products, which remain an attractive growth platform. Refining revenue increased in 2005 as well.

In the second quarter 2005, WAM acquired OMC Scientific Limited (OMC), which provides physical vapor deposition material cleaning and reconditioning services to customers in Europe. In the fourth quarter 2005, WAM acquired Thin Film Technology, Inc. (TFT), which manufactures precision optical coatings, thin film circuits and coatings and other products. Both of these acquisitions serve to expand WAM's capabilities and add further breadth to WAM's product offerings. TFT was previously a WAM vendor, working closely with WAM on the development and production of lid assemblies. OMC and TFT were responsible for approximately 11% of WAM's sales growth in 2005 over 2004. The expansion of WAM's business continued into 2006 with the acquisition of CERAC, incorporated, which was completed in January 2006. CERAC manufactures physical vapor deposition and specialty inorganic materials to a variety of industries.

Sales through WAM's operation in Taiwan grew at a double-digit rate in 2005. While still small, this operation that began as a joint venture in 2003 and became a wholly owned subsidiary in early 2004, has continued to grow and offers an additional long-term growth opportunity for WAM. WAM has also established, or is in the process of establishing, sales and marketing offices in Korea, Japan and China in order to take advantage of growth opportunities in Asia.

Electronic Products

Electronic Products manufactures beryllia ceramics, electronic packages and circuitry for sale into the telecommunications and computer, medical, electronics, automotive and defense markets. These products provide specific thermal and/or electrical conductivity characteristics and are used as components in a variety of applications, including wireless telecommunications equipment, fiber optics, lasers for medical and other electronic equipment, automotive ignition module systems, satellites and radar systems. Electronic Products are manufactured by Zentrix Technologies Inc. and Brush Ceramic Products Inc., two wholly owned subsidiaries.

Sales from Electronic Products were $25.4 million in 2005, a decline of 15% from 2004, while sales of $29.9 million in 2004 were relatively unchanged from 2003.

Sales of beryllia ceramics declined 17% in 2005 after growing approximately 14% in 2004 over 2003. The softer sales in 2005 as well as the growth in 2004 sales resulted from changes in demand from sectors of the telecommunications and computer market, including infrastructure equipment applications. In addition, downstream inventories of our products were high at the end of 2004 and orders were reduced during 2005 as this high inventory position was being consumed. Beryllia ceramics is a mature product line with established applications but limited growth opportunities. Sales of electronic packages also declined in 2005 largely due to weaker demand from the automotive market. Sales of these products had improved in 2004 over 2003 due to changes in the build rates for telecommunications infrastructure equipment. Sales of circuitry, which are manufactured by Circuits Processing Technology, Inc., (CPT), a wholly owned subsidiary of Zentrix, improved 21% in 2005 over 2004 after declining 33% in 2004 from the 2003 sales level. While defense applications remain the largest market for circuits, CPT continued their efforts to develop additional commercial applications in order to diversify their product offerings.

Microelectronics Group Gross Margin and Expenses

The gross margin on Microelectronics Group sales was $43.0 million in 2005, $40.5 million in 2004 and $32.8 million in 2003. As a percent of sales, the gross margin was 18% in 2005 compared to 21% in both 2004 and 2003. The higher sales volumes in 2005 generated an additional $8.4 million in margin over 2004. However, the unfavorable product mix shift, resulting from changes within WAM as well as the lower automotive and telecommunication and computer market sales, reduced margins by an estimated $4.7 million. Manufacturing overhead costs increased in 2005, partially due to product development efforts, and inventory valuation adjustments were unfavorable as compared to the prior year.

The growth in the gross margin in 2004 due to the higher sales volumes was approximately $9.1 million while the change in product mix impact was slightly unfavorable. Manufacturing overhead costs were $0.8 million higher in 2004, primarily within WAM, reflective of the higher level of production activity.

SG&A, R&D and other-net expenses within the Microelectronics Group increased $2.0 million in 2005 over 2004 with the expenses incurred by OMC and TFT accounting for $1.4 million of the increase. Other sales-related expenses were higher as well, including costs associated with expanding international marketing efforts. The sale of an unused building created a one-time gain of $0.3 million in 2004, reducing net expenses in that period. Incentive compensation expenses were slightly lower in 2005 than 2004. The precious metal consignment fee was unchanged in 2005 from 2004.

SG&A, R&D and other-net expenses were $1.8 million higher in 2004 than in 2003, although as a percent of sales these expenses declined from 13% in 2003 to 11% in 2004. Administrative costs, including legal expenses, within WAM, were the major cause of the increase. Costs associated with the newly created and growing operation in Taiwan also contributed to the increase in expenses. The precious metal financing fee increased only slightly in 2004 over 2003 despite the increase in metal on hand.

The Microelectronics Group operating profit was $19.0 million, or 8% of sales, in 2005, $18.5 million or 9% of sales, in 2004 and $12.6 million, or 8% of sales, in 2003.

International Sales and Operations

We operate in worldwide markets and our international customer base continues to expand due to the development of various foreign nations' economies and the relocation of U.S. businesses overseas. Our international operations are designed to provide a cost-effective method of capturing the growing overseas demand for our products. Brush International has service centers in Germany, England, Japan and Singapore that primarily focus on the distribution of Alloy Products while also providing additional local support to portions of our other businesses. WAM has finishing operations in Singapore and the Philippines and a small manufacturing operation in Taiwan and this year acquired OMC in Ireland. We also have branch sales offices in various countries, including the Republic of China and Taiwan, and we utilize an established network of independent distributors and agents throughout the world. Total international sales, including sales from international operations as well as direct exports from the U.S., for the 2003 to 2005 time frame were as follows:

(Millions)	**2005**	2004	2003
From international operations	**$ 132.8**	$ 119.8	$ 89.5
Exports from U.S. operations	**46.3**	44.3	34.9
Total international sales	**$ 179.1**	$ 164.1	$ 124.4
Percent of total net sales	**33%**	33%	31%

The international sales presented in the above table are included in both the Metal Systems Group and Microelectronics Group sales figures previously discussed. The majority of international sales are to the Pacific Rim, Europe and Canada. The increase in international sales in 2005 was primarily in Asia, while the OMC acquisition added to the European sales base in 2005. The Asian sales growth resulted from a combination of additional market penetration, the relocation of U.S. production to overseas locations and increased market share. Sales in Europe and Asia both grew in 2004, partially due to a favorable currency exchange effect as compared to 2003. The currency effect on 2005 sales was negligible compared to 2004.

We serve many of the same markets internationally as we do domestically. Telecommunications and computer and automotive electronics are the largest international markets for our products. The appliance market for Alloy Products is a more significant market, primarily in Europe, than it is domestically while government and defense applications are not as prevalent overseas as they are in the U.S. Our market share is smaller in the overseas markets than it is domestically and given the macro-economic growth potential for the international economies, including the continued transfer of U.S. business to overseas locations, the international markets may present greater long-term growth opportunities. We believe that a large portion of the long-term international growth will come from China and we continue to expand our marketing presence, distributor arrangements and customer relationships there.

Sales from the international operations are typically denominated in the local currency, particularly in Europe and Japan. Exports from the U.S. and sales from the Singapore operations are predominately denominated in U.S. dollars. Movements in the foreign currency exchange rates will affect the reported translated value of foreign currency denominated sales while local competition limits our ability to adjust selling prices upwards to compensate for short-term exchange rate movements. We have a hedge program with the objective of minimizing the impact of fluctuating currency values on our reported results.

Legal Proceedings

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

The following table summarizes the associated activity with beryllium cases.

	December 31,		
	2005	2004	2003
Total cases pending	**13**	12	15
Total plaintiffs (including spouses)	**54**	56	33
Number of claims (plaintiffs) filed during period ended	**5(7)**	6(42)	11(22)
Number of claims (plaintiffs) settled during period ended	**1(1)**	6(10)	24(47)
Aggregate cost of settlements during period ended (dollars in thousands)	**$ 2**	$ 370	$ 2,045
Number of claims (plaintiffs) otherwise dismissed	**3(8)**	3(9)	5(12)

Settlement payment and dismissal for a single case may not occur in the same period. The 2003 data includes five claims that were settled and dismissed late in the fourth quarter 2003. Payments of the claims were made in 2004 but are shown in the preceding table in 2003.

Additional beryllium claims may arise. Management believes that we have substantial defenses in these cases and intends to contest the suits vigorously. Employee cases, in which plaintiffs have a high burden of proof, have historically involved relatively small losses to us. Third-party plaintiffs (typically employees of customers or contractors) face a lower burden of proof than do employees or former employees, but these cases are generally covered by varying levels of insurance. A reserve was recorded for beryllium litigation of $2.1 million at December 31, 2005 and $1.9 million at December 31, 2004. A receivable was recorded of $2.2 million at December 31, 2005 and $2.3 million at December 31, 2004 from our insurance carriers as recoveries for insured claims. An additional $0.4 million was reserved at December 31, 2005 and 2004 for insolvencies related to claims still outstanding as well as claims for which partial payments have been received.

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

While we are unable to predict the outcome of the current or future beryllium proceedings, based upon currently known facts and assuming collectibility of insurance, we do not believe that resolution of these proceedings will have a material adverse effect on our financial condition or cash flow. However, our results of operations could be materially affected by unfavorable results in one or more of these cases. As of December 31, 2005, four purported class actions were pending.

Regulatory Matters. Standards for exposure to beryllium are under review by the United States Occupational Safety and Health Administration and by other governmental and private standard-setting organizations. One result of these reviews will likely be more stringent worker safety standards. More stringent standards may affect buying decisions by the users of beryllium-containing products. If the standards are made more stringent or our customers decide to reduce their use of beryllium-containing products, our operating results, liquidity and capital resources could be materially adversely affected. The extent of this adverse effect would depend on the nature and extent of the changes to the standards, the cost and ability to meet the new standards, the extent of any reduction in customer use and other factors that cannot be estimated.

FINANCIAL POSITION

Working Capital

Cash flow from operations totaled $3.5 million in 2005 compared to $38.9 million in 2004. Cash received from the sale of goods totaled $531.2 million in 2005 and $492.7 million in 2004. Cash paid for goods and expenses was $518.9 million in 2005, an increase of $71.3 million over 2004. The cash balance was $10.6 million at December 31, 2005 compared to $49.6 million at December 31, 2004. This decline was due primarily to the retirement of debt, the funding of capital expenditures, two small acquisitions and a pension plan contribution.

The accounts receivable balance was $69.9 million at year-end 2005 compared to $59.2 million at year-end 2004. After having improved for five consecutive years, the year-ending days sales outstanding (DSO), a measure of how quickly receivables are collected, after adjusting for the unearned revenue effect, increased by approximately three days from year-end 2004, although we believe collections are still being made on a timely basis. The slower collection period accounted for approximately 40% of the increased accounts receivable balance. The balance of the increase was due to higher sales in the fourth quarter 2005 than in the fourth quarter 2004 and the difference in the outstanding billings for unshipped items that were recorded through unearned revenue. Accounts receivable increased by $4.1 million in 2004 as a result of higher sales volumes and the unearned revenue effect. The DSO as of year-end 2004 improved approximately five days from year-end 2003.

Accounts written off to bad debt expense remained relatively minor in 2005. Early in the fourth quarter 2005, Delphi Corporation, the largest U.S. supplier of automotive parts, filed for bankruptcy protection. Delphi is a customer of businesses within both the Metal Systems Group and the Microelectronics Group. However, our credit exposure with Delphi at the time of the bankruptcy filing was limited and any potential bad debt was minimal.

The inventory balance at December 31, 2005 was $104.1 million, an increase of $8.8 million since the previous year end. Inventories increased $7.9 million during 2004. Approximately half of the inventory build in 2005 occurred in the fourth quarter in response to the higher sales in that period and in preparation for the projected high sales level in the first quarter 2006. Alloy inventory pounds were 8% higher at year-end 2005 than year-end 2004 in part due to additional purchases of copper beryllium master alloy from the Defense Logistics Agency during the fourth quarter 2005. Alloy inventory pounds had declined 2% in 2004. Scrap utilization and manufacturing yield improvements had helped keep alloy inventory pounds at levels below the levels from 2003 and the preceding years. WAM's inventories climbed in each of the last two years to support the higher sales volumes, but the inventory increase was not proportional to the sales increase as the majority of WAM's inventory is maintained on an off-balance sheet consignment arrangement. Approximately 60% of the 2004 inventory build was in Beryllium Products and primarily as a result of the Webb Telescope project. With the completion of the majority of this project in 2005, however, year-end 2005 inventories within Beryllium Products remained relatively unchanged from the prior year end and their

months' supply of inventory has increased. Inventories within Brush Resources declined in 2005, as they did in 2004, as the level of mining activity has diminished due to sufficient supplies of beryllium hydroxide previously produced.

The higher cost of copper, nickel, precious metals and other materials increased the value of the inventory on a first-in, first-out (FIFO) basis in each of the last two years; however, this impact was largely offset by the use of the last-in, first-out (LIFO) valuation method and the higher metal prices only had a small impact on the increase in inventory values during 2005 and 2004. The LIFO method also generally results in the higher cost of materials (as well as other costs) being charged to cost of sales in the current period.

While the inventory level increased in 2005, the overall inventory turns, a measure of how efficiently inventory is utilized, improved as of year-end 2005 as compared to year-end 2004. Inventory turns were lower as of year-end 2004, primarily due to the Webb Telescope inventory, compared to year-end 2003.

Prepaid expenses as of December 31, 2005 included the fair value of the outstanding foreign exchange derivative contracts totaling $1.5 million and copper hedge contracts of $1.9 million. The fair value of the foreign exchange contracts outstanding as of December 31, 2004 was a loss of $3.9 million, with $3.4 million recorded in other liabilities and accruals and $0.5 million in other long-term liabilities, and there were no outstanding copper hedge contracts. The cause for the change from a liability to an asset in the fair value of the foreign currency derivatives was the relative strength of the U.S. dollar as compared to the strike price of the outstanding contracts at each year end.

In addition to the impact of the fair value of the derivatives, prepaid expenses increased $2.7 million during 2005 due to an increase in the legal defense costs to be reimbursed by insurance carriers and the timing of other payments. Prepaid expenses increased $2.9 million in 2004 as a result of miscellaneous timing differences.

Other assets were $8.3 million as of year-end 2005, a decline of $6.3 million during the year. The two major causes for the decline were the write-off of deferred financing costs associated with debt that was prepaid during the year and the write-off of the pension plan prior service cost intangible asset to OCI as a result of a plan amendment. These items are discussed in greater detail in other sections of this Management's Discussion and Analysis. Offsetting a portion of the decline in other assets from these two items was the addition of intangible assets from the TFT and OMC acquisitions totaling $2.1 million. These intangibles will be amortized over the next seven to ten years depending upon the item.

The accounts payable balance of $20.9 million was $7.6 million higher at year-end 2005 than year-end 2004 due to increased business levels and the timing of payments relative to year end while the 2004 year-end balance was $2.8 million lower than year-end 2003. Accrued salaries and wages were $7.4 million lower at year-end 2005 than the prior year end primarily due to the lower incentive compensation accruals in 2005. Unearned revenue, which is a liability representing billings to customers in advance of the shipment of product, was $0.3 million at December 31, 2005 compared to $7.8 million at December 31, 2004. The majority of the unearned revenue as of the prior year end was related to the Webb Telescope contract, which began in 2004 and was completed during the second quarter 2005. Other long-term liabilities of $8.2 million declined $2.6 million during 2005 after declining $3.9 million during 2004. The reduction in both years was due to movements in the environmental remediation reserve and changes in the long-term portion of the fair value of derivatives, primarily interest rate swaps. The legal reserve increased slightly in 2005 after declining in 2004.

We paid less than $0.1 million for legal settlements related to chronic beryllium disease in 2005 compared to $1.4 million in 2004. We received $0.2 million in 2005 and $1.0 million in 2004 from our insurance carriers as partial reimbursement for the insured portions of claims paid in the current and prior years.

Depreciation and Amortization

Depreciation, amortization and depletion was $21.7 million in 2005, $21.2 million in 2004 and $19.1 million in 2003. The increase in 2005 is due to the current year capital expenditures while the $2.1 million increase in expense in 2004 over 2003 resulted primarily from the purchase of the previously leased assets for $51.8 million in December 2003. Amortization of deferred mine development was $1.2 million in both 2004 and 2003; there was no mine development amortization in 2005 as there was no mining activity due to the amount of available ore previously removed from the pits. Mine development costs are amortized based upon the units-of-production method as ore is extracted from the pits. Amortization of deferred financing costs included in interest expense was $1.1 million in 2005, $1.5 million in 2004 and $0.4 million in 2003. The increase in 2004 was due to the amortization of costs associated with the December 2003 refinancing.

Capital Expenditures

Capital expenditures for property, plant and equipment and mine development totaled $13.8 million in 2005, an increase of $4.6 million over the $9.2 million expended in 2004. Spending by the Metal Systems Group totaled $8.6 million in 2005 and $5.8 million in 2004, while the Microelectronics Group spending totaled $4.7 million in 2005 and $2.7 million in 2004. The majority of the spending in both years was on small infrastructure projects, equipment upgrades and discreet pieces of equipment. Spending at the Elmore facility accounted for over half of the Metal Systems Group spending in 2005, while spending within the various WAM facilities accounted for approximately 90% of the Microelectronics Group capital spending. While certain pieces of equipment may have been capacity constrained or operated near their capacity, in general, we had sufficient production capacity to meet the level of demand throughout 2005. We exercised the purchase option in various lease agreements and purchased previously leased assets at a cost of $0.4 million in 2005 and $0.9 million in 2004.

We acquired the stock of OMC and TFT for a combined cost of $11.5 million in cash, net of cash received. Goodwill from the two acquisitions was valued at $4.8 million.

Pension Liability

We annually remeasure the domestic defined benefit plan assets and liabilities at each year end. However, we also remeasured the plan during the second quarter 2005 as a result of a plan amendment that was deemed to be a significant event as defined by Statement No. 87, "Employers' Accounting for Pensions". The amendment revised the benefit payout formula for the majority of the plan participants, among other changes. Various assumptions, including the expected rate of return and discount rate, were reviewed and revised at that time as warranted. As a result of the remeasurement, the prior service cost asset of $5.0 million was charged off against OCI while the minimum pension liability increased $6.1 million with the offset also charged against OCI in the second quarter 2005.

The market value of the assets in the domestic defined benefit pension plan was $94.8 million while the present value of the accumulated benefit obligation was $122.5 million as of December 31, 2005. In accordance with Statement No. 87 guidelines, we, therefore, increased the minimum pension liability by $8.5 million with the offset charged against OCI in the fourth quarter 2005. The OCI balance related to the domestic pension plan was $35.4 million as of year-end 2005.

During 2005, the fair value of the assets in the domestic pension plan increased by $5.4 million as a result of a $5.0 million contribution to the plan and earnings that slightly exceeded plan disbursements. The pension plan assets earned an actual return of 6.5% in 2005 compared to 10.6% in 2004. No contribution to the plan was required in 2004. The accumulated benefit obligation for the defined benefit plan increased $18.1 million in 2005 due to a lower discount rate, an additional year of service earned by the participants and other actuarial assumptions. The associated expense, which also served to increase the liability, was $3.1 million in 2005. While this was higher than the expense of $2.7 million in 2004, the 2005 expense would have been higher had the plan not been amended.

Brush International's subsidiary in Germany has an unfunded retirement plan for its employees. The minimum pension liability for this plan was $4.1 million as of December 31, 2005 and $1.4 million was charged against OCI in 2005 as a result of the annual remeasurement of the plan.

Common Stock

We received $0.4 million for the exercise of 29,955 employee stock options in 2005 and $3.2 million for the exercise of 228,298 employee stock options in 2004. The market price for our common stock on average was lower relative to the strike price of the vested outstanding options in 2005 than in 2004.

In the third quarter 2004, we issued 2.25 million shares of our common stock with the net proceeds, after deduction of all expenses, being $38.7 million. The new shares represented 13% of the shares previously issued and outstanding. Concurrent with the offering, the holders of 115,000 warrants, initially granted in conjunction with a debt refinancing in December 2003, exercised their rights and sold their shares. The exercise and issuance of the shares for these warrants did not have a material impact on our cash flows.

Debt and Off-balance Sheet Obligations

During the fourth quarter 2005, we repaid the $30.0 million subordinated debt with a combination of excess cash and proceeds from borrowings under the revolving credit agreement. Repayment of this high-interest rate debt should generate cash and expense savings going forward. As a result of the repayment, we wrote off the associated remaining unamortized deferred financing costs of $2.2 million and paid a prepayment penalty of $1.6 million. During the first quarter 2005, we repaid the $18.6 million term notes. Only $2.9 million of these notes were due to be repaid in 2005, but we repaid the notes early due to our cash position. We retain the ability to re-borrow these funds under the revolving credit agreement in accordance with the term loan's original amortization schedule. Deferred financing costs of $0.6 million associated with the term loans were written off in the first quarter 2005. The subordinated debt and the term notes were secured as part of the December 2003 refinancing.

Also during the fourth quarter 2005, we renegotiated our revolving credit agreement to increase the borrowing capacity to $125.0 million and to modify various financial covenants, including the level of allowable acquisitions.

Total debt was $57.2 million at year-end 2005, a reduction of $15.3 million since the prior year end. Short-term debt totaled $23.6 million and included $6.2 million of foreign denominated debt and $12.3 million of gold-denominated debt designed as hedges against assets similarly denominated. The foreign debt increased during 2005 as we established a new line of credit in Germany. The outstanding gold debt is higher at year-end 2005 than year-end 2004 as a result of the increased price of gold. Other short-term domestic borrowings under the revolving credit agreement were $5.1 million. Long-term debt was $33.6 million at December 31, 2005 compared to $60.8 million at December 31, 2004. The long-term debt as of year-end 2005 included $22.0 million borrowed under the revolving credit agreement and three other variable rate instruments. Long-term debt repayments scheduled for 2006 totaled $0.6 million and were classified on the Consolidated Balance Sheet accordingly. See Note F to the Consolidated Financial Statements.

We reduced our balance sheet debt by $42.0 million over the course of 2004 and 2005 as cash generated from the 2004 share offering, operational improvements and the higher level of profitability was used to retire debt. We were in compliance with all of our debt covenants as of December 31, 2005.

We have an off-balance sheet operating lease with a notional value of $11.4 million as of December 31, 2005 that finances a building at the Elmore facility. Annual payments under this lease are $2.3 million. See Note G to the Consolidated Financial Statements for further leasing details.

We maintain the majority of our precious metal inventories on a consignment basis in order to reduce our metal price exposure. See Market Risk Disclosures in this Management's Discussion and Analysis. The notional value of this off-balance sheet inventory was $43.7 million at December 31, 2005 compared to $17.2 million at December 31, 2004. Approximately $6.6 million of the increase in the consignment value was due to higher metal prices at year-end 2005 compared to year-end 2004. The remaining portion of the increase was due to additional ounces on

hand to support the increase in WAM's business volume and changes in product mix. The capacity under the precious metal consignment lines was increased to $98.0 million in 2005.

Contractual Obligations

A summary of contractual payments to be made under long-term debt agreements, operating leases and material purchase commitments by year is as follows:

(Millions)	2006	2007	2008	2009	2010	There-after	Total
Long-term debt	$ 0.6	$ 0.6	$ 0.7	$ 22.7	$ –	$ 9.0	$ 33.6
Building lease	2.3	2.3	2.3	2.3	2.3	2.5	14.0
Other operating lease payments	2.8	2.5	1.9	1.8	1.1	1.6	11.7
Subtotal non-cancelable leases	5.1	4.8	4.2	4.1	3.4	4.1	25.7
Purchase commitments	11.0	11.0	–	–	–	–	22.0
Total	$ 16.7	$ 16.4	$ 4.9	$ 26.8	$ 3.4	$ 13.1	$ 81.3

The revolving credit agreement matures in 2009. We anticipate that a new debt agreement will be negotiated prior to the maturation of this agreement. Annual repayments are required to be made against other portions of our long-term debt in each of the next four years. See Note F to the Consolidated Financial Statements for additional debt information. The lease payments represent payments under non-cancelable leases with initial lease terms in excess of one year as of December 31, 2005. See Note G to the Consolidated Financial Statements. The purchase commitments include $0.4 million for capital equipment to be acquired in 2006. The $10.6 million balance of these obligations in 2006 and the $11.0 million in 2007 are for raw materials to be acquired under long-term supply agreements that end in 2007, although we have the opportunity to negotiate an extension for one of the agreements. See Note J to the Consolidated Financial Statements. Contractual obligations totaled $122.4 million as of December 31, 2004.

Other

We believe that cash flow from operations plus the available borrowing capacity, and the current cash balance are adequate to support operating requirements, capital expenditures, projected pension plan contributions, environmental remediation projects and small acquisitions. The repayment of the high rate subordinated debt and the amended revolving credit agreement allow for increased stability in our capital structure, more flexibility in terms of available credit and covenant structures and lower borrowing costs. The debt to debt-plus-equity ratio, a leverage measure, improved in each of the last two years. Cash flow from operations was positive in 2005 once again. While the year-end 2005 cash balance was $39.0 million lower than the unusually high balance at the end of 2004, $32.1 million of this decline was used to retire debt, acquire two businesses and fund a pension plan contribution. In addition to the $10.6 million cash balance, available borrowings under existing unused lines of credit totaled $75.5 million as of December 31, 2005.

Portions of the cash balances may be invested in high quality, highly liquid investments with maturities of three months or less.

ENVIRONMENTAL

We have an active program of environmental compliance. We estimate the probable cost of identified environmental remediation projects and establish reserves accordingly. The environmental remediation reserve balance was $4.9 million at December 31, 2005 and $5.7 million at December 31, 2004. The reserve balance was reduced during 2005 as a result of revised detailed estimates of the projected remediation costs that were prepared by outside consultants and reviewed by management. Payments against the reserve totaled $0.3 million in 2005. See Note J to the Consolidated Financial Statements.

ORE RESERVES

Brush Resources' reserves of beryllium-bearing bertrandite ore are located in Juab County, Utah. An ongoing drilling program has generally added to proven reserves. Proven reserves are the measured quantities of ore commercially recoverable through the open-pit method. Probable reserves are the estimated quantities of ore known to exist, principally at greater depths, but prospects for commercial recovery are indeterminable. Ore dilution that occurs during mining is approximately seven percent. Approximately 87% of beryllium in ore is recovered in the extraction process. We augment our proven reserves of bertrandite ore through the purchase of imported beryl ore. This ore, which is approximately 4% beryllium, is also processed at Brush Resources' Utah extraction facility.

We use computer models to estimate ore reserves, which are subject to economic and physical evaluation. Development drilling can also affect the total ore reserves to some degree. There was no development drilling activity in 2005 or 2004. The requirement that reserves pass an economic test causes open-pit mineable ore to be found in both proven and probable geologic settings. Proven reserves have decreased slightly in each of the last four years while probable reserves have remained unchanged over the last three years. We own approximately 95% of the proven reserves, with the remaining reserves leased. Based upon average production levels in recent years, proven reserves would last in excess of 100 years. Ore reserves classified as possible are excluded from the following table.

	2005	2004	2003	2002	2001
Proven bertrandite ore reserves at year end (thousands of dry tons)	**6,601**	6,640	6,687	6,730	7,270
Grade % beryllium	**0.268%**	0.268%	0.267%	0.267%	0.268%
Probable bertrandite ore reserves at year end (thousands of dry tons)	**3,519**	3,519	3,519	3,519	3,081
Grade % beryllium	**0.232%**	0.232%	0.232%	0.232%	0.219%
Bertrandite ore processed (thousands of dry tons, diluted)	**38**	39	41	40	48
Grade % beryllium, diluted	**0.316%**	0.248%	0.224%	0.217%	0.224%

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires the inherent use of estimates and management's judgment in establishing those estimates. The following are the most significant accounting policies we use that rely upon management's judgment.

Accrued Liabilities. We have various accruals on our balance sheet that are based in part upon management's judgment, including accruals for litigation, environmental remediation and workers' compensation costs. We establish accrual balances at the best estimate determined by a review of the available facts and trends by management and independent advisors and specialists as appropriate. Absent a best estimate, the accrual is established at the low end of the estimated reasonable range in accordance with Statement No. 5, "Accounting for Contingencies". Litigation and environmental accruals are only established for identified and/or asserted claims; future claims, therefore, could give rise to increases to the accruals. The accruals are adjusted as facts and circumstances change. The accruals may also be adjusted for changes in our strategies or regulatory requirements. Since these accruals are estimates, the ultimate resolution may be greater or less than the established accrual balance for a variety of reasons, including court decisions, additional discovery, inflation levels, cost control efforts and resolution of similar cases. Changes to the accruals would then result in an additional charge or credit to income. See Note J to the Consolidated Financial Statements.

Certain legal claims are subject to partial or complete insurance recovery. The accrued liability is recorded at the gross amount of the estimated cost and the insurance recoverable, if any, is recorded as a separate asset and is not netted against the liability.

The accrued legal liability includes the estimated indemnity cost only, if any, to resolve the claim through a settlement or court verdict. The legal defense costs are not included in the accrual and are expensed in the period incurred, with the level of expense in a given year affected by the number and types of claims we are actively defending. Portions of the legal defense costs may also be covered by insurance, in which case payments will be recorded as a prepaid expense on the balance sheet awaiting reimbursement from the insurance carrier.

Pensions. We have a defined benefit pension plan that covers a large portion of our current and former domestic employees. We account for this plan in accordance with Statement No. 87, "Employers' Accounting for Pensions". Under this statement, the carrying values of the associated assets and liabilities are determined on an actuarial basis using numerous actuarial and financial assumptions. Differences between the assumptions and current period actual results may be deferred into the net pension asset or liability value and amortized against future income under established guidelines. The deferral process generally reduces the volatility of the recognized net pension asset or liability and current period income or expense. The actuaries adjust their assumptions to reflect changes in demographics and other factors, including mortality rates and employee turnover, as warranted. Management periodically reviews other key assumptions, including the expected return on plan assets, the discount rate and the average wage rate increase, against actual results, trends and industry standards and makes adjustments accordingly. These adjustments may then lead to a higher or lower expense in a future period.

Our pension plan investment strategies are governed by a policy adopted by the Retirement Plan Review Committee of the Board of Directors. The future return on pension assets is dependent upon the plan's asset allocation, which changes from time to time, and the performance of the underlying investments. As a result of our review of various factors, we reduced the expected rate of return on plan asset assumption to 8.50% at December 31, 2005 from 8.75% at December 31, 2004. We believe that an 8.50% return over the long term is reasonable. Should the assets earn an average return less than 8.50% over time, in all likelihood the future pension expense would increase. Investment earnings in excess of 8.50% would tend to reduce the future expense.

We establish the discount rate used to determine the present value of the projected and accumulated benefit obligation at the end of each year based upon the available market rates for high quality, fixed income investments. An increase to the discount rate would reduce the future pension expense and, conversely, a lower discount rate would raise the future pension expense. We elected to use a discount rate of 5.75% as of December 31, 2005 compared to 6.125% at December 31, 2004 and 5.875% as of the mid-year remeasurement.

We estimate that the net expense from the domestic defined benefit pension plan will be $1.9 million higher in 2006 than 2005 as a result of the reduction in the expected rate of return and discount rate assumptions, changes in other assumptions and valuations, the amortization of prior differences between actual and expected results and other factors.

If the expected rate of return assumption was changed by 50 basis points (0.50%) and all other pension assumptions remained constant, the 2006 projected pension expense would change by approximately $0.5 million. If the December 31, 2005 discount rate were reduced by 25 basis points (0.25%) and all other pension assumptions remained constant, then the 2006 projected pension expense would increase by approximately $0.4 million.

The $27.7 million minimum pension liability for the domestic plan recorded as of December 31, 2005 does not by itself indicate that a cash contribution to the plan is required. This liability was recorded according to the requirements of Statement No. 87, while cash contributions and funding requirements are governed by ERISA and IRS guidelines. Based upon these guidelines, current assumptions and estimates and our pension plan objectives, we estimate a cash contribution of approximately $1.9 million will be required in 2006. The inter-relationship of the many factors affecting the plan assets and liabilities makes it difficult to project contributions beyond one year out; however, a contribution may be required in 2007 that is greater than the 2006 contribution. The minimum pension liability under Statement No. 87 will be recalculated at the measurement date (December 31 of each year) and any adjustments to this account and other comprehensive income within shareholders' equity will be recorded at that time accordingly. See Note I to the Consolidated Financial Statements for additional details on our pension plans.

The Financial Accounting Standards Board is currently reviewing and may recommend revising the accounting standards for pension and post-retirement benefit plans. The proposed revisions may be more reflective of international pension accounting standards. Potential changes may be the elimination of smoothing of actuarial gains and losses and revisions to the methods for calculating plan expenses. The revisions, if enacted, may be implemented in two phases beginning in 2006. At the present time, we cannot assess the potential impact these potential revisions may have on our results of operations or financial condition.

LIFO Inventory. The prices of certain major raw materials, including copper, nickel, gold, silver and other precious metals, fluctuate during a given year. The cost of copper increased significantly in 2005 after a large increase in 2004 as well. Nickel prices have also climbed over the last two years. Where possible, such changes in costs are generally reflected in selling price adjustments. The prices of labor and other factors of production generally increase with inflation. Additions to capacity, while more expensive over time, usually result in greater productivity or improved yields. However, market factors, alternative materials and competitive pricing may limit our ability to offset cost increases with higher prices. This was evident in both 2005 and 2004; in 2005 alone we could not pass through an estimated $2.7 million of the increased raw material costs to our customers, which in turn reduced gross margins as compared to 2004.

We use the last-in, first-out (LIFO) method for costing the majority of our domestic inventories. Under the LIFO method, inflationary cost increases are charged against the current cost of goods sold in order to more closely match the cost with the associated revenue. The carrying value of the inventory is based upon older costs and as a result, the LIFO cost of the inventory on the balance sheet is typically lower than it would be under most alternative costing methods. The LIFO inventory value also tends to be less volatile during years of fluctuating costs than the value would be using other costing methods. The LIFO impact on the income statement in a given year is dependent upon the inflation rate effect on raw material purchases and manufacturing conversion costs, the level of purchases in a given year and the inventory mix and balance.

Assuming no change in the quantity or mix of inventory from the December 31, 2005 level, a 1% change in the annual inflation rate would cause a $0.4 million change in the LIFO inventory value.

Deferred Tax Assets. We record deferred tax assets and liabilities in accordance with Statement No. 109, "Accounting For Income Taxes". The deferrals are determined based upon the temporary difference between the financial reporting and tax bases of assets and liabilities. We review the expiration dates of the deferrals against projected income levels to determine if the deferral will or can be realized. If it is determined that it is more likely than not that a deferral will not be realized, a valuation allowance would be established for that item. Certain deferrals, including the alternative minimum tax credit, do not have an expiration date. See Note O to the Consolidated Financial Statements for additional deferred tax details.

In addition to reviewing the deferred tax assets against their expiration dates, we evaluated our deferred tax assets for impairment and, due to the operating losses in 2001 and 2002, we recorded a valuation allowance in December 2002. The valuation allowance was adjusted in each subsequent year, with amounts being charged or credited to income, including the use of net operating loss carryforwards, or other comprehensive income as appropriate. The deferred tax valuation allowance balance was $19.9 million as of December 31, 2005.

In 2005, in addition to reversing amounts from the valuation allowance to offset the current year tax expense, we determined that it was more likely than not that, based upon recent earnings and projections of future taxable earnings, we would utilize an additional $5.9 million of our deferred tax assets and we reversed that amount against tax expense in 2005. Beginning in the first quarter 2006, we will record a tax expense based upon our estimated effective tax rate for all jurisdictions and without offset for the reversal of any valuation allowance. In the fourth quarter 2006, or earlier should a realization event occur, we will re-evaluate the deferred tax asset once again to determine if it is more likely than not that any additional portion or all of the asset may be realized. If so, the valuation allowance will be reduced and income tax expense will be credited at that time. Reversal of the allowance is dependent upon jurisdiction, as it is possible to reverse a portion of the allowance as a result of earnings in one country but retain an allowance as a result of a loss in another country.

By recording tax expense in periods when we generate a pre-tax profit, the net income and earnings per share will be lower when compared to 2005 when we only recorded a net tax expense or benefit for those jurisdictions that did not have a valuation allowance.

Unearned revenue. Billings under long-term sales contracts in advance of the shipment of the goods are recorded as unearned revenue, which is a liability on the balance sheet. Revenue and the related cost of sales and gross margin are only recognized for these transactions when the goods are shipped, title passes to the customer and all other revenue recognition criteria are met. The unearned revenue liability is reversed when the revenue is recognized. The related inventory also remains on our balance sheet until these criteria are met as well. Billings in advance of the shipments allow us to collect cash earlier than billing at the time of the shipment and, therefore, the collected cash can be used to help finance the underlying inventory.

Derivatives. We may use derivative financial instruments to hedge our foreign currency, commodity price and interest rate exposures. We apply hedge accounting when an effective hedge relationship can be documented and maintained. If a hedge is deemed effective, changes in its fair value are recorded in OCI until the underlying hedged item matures. If a hedge does not qualify as effective, changes in its fair value are recorded against income in the current period. We secure derivatives with the intention of hedging existing or forecasted transactions only and do not engage in speculative trading or holding derivatives for investment purposes. Our annual budget and quarterly forecasts serve as the basis for determining forecasted transactions. The use of derivatives is governed by policies established by the Board of Directors. The level of derivatives outstanding

may be limited by the availability of credit from financial institutions. See Note H to the Consolidated Financial Statements and the Market Risk Disclosures section in this Management's Discussion and Analysis for more information on derivatives.

MARKET RISK DISCLOSURES

We are exposed to precious metal and commodity price, interest rate and foreign exchange rate differences. While the degree of exposure varies from year to year, our methods and policies designed to manage these exposures have remained fairly consistent. We attempt to minimize the effects of these exposures through a combination of natural hedges and the use of derivatives.

We use gold and other precious metals in manufacturing various products. To reduce the exposure to market price changes, precious metals are maintained on a consigned inventory basis. The metal is purchased out of consignment when it is ready to ship to a customer as a finished product. Our purchase price forms the basis for the price charged to the customer for the precious metal content and, therefore, the current cost is matched to the selling price and the price exposure is minimized. We maintain a certain amount of gold in our own inventory, which is typically balanced out by having a loan denominated in gold for the same number of ounces. Any change in the market price of gold, either higher or lower, will result in an equal change in the fair value of the asset and liability recorded on the balance sheet.

We are charged a consignment fee by the financial institutions that actually own the precious metals. This fee, along with the interest charged on the gold-denominated loan, is partially a function of the market price of the metal. Because of market forces and competition, the fee, but not the interest on the loan, can be charged to customers on a case-by-case basis. To further limit price and financing rate exposures, under some circumstances we will require customers to furnish their own metal for processing. This practice is used more frequently when the rates are high and/or more volatile. Should the market price of precious metals that we use increase by 15% from the prices on December 31, 2005, the additional pre-tax cost to us on an annual basis would be approximately $0.2 million. This calculation assumes no changes in the quantity of inventory or the underlying fee and interest rates and that none of the additional fee is charged to customers.

We also use base metals, including copper, in our production processes. When possible, fluctuations in the purchase price of copper are passed on to customers in the form of price adders or reductions. As previously indicated, copper prices increased significantly during 2005 and 2004 and we could not pass through all of this increase to customers in all cases. In 2005, we entered into derivative contracts to hedge portions of this price exposure and gains on the contracts that matured in 2005 helped to mitigate the negative margin impact of the higher copper prices. In the previous two years, credit availability from our banking group had limited our ability to secure copper hedge contracts. The notional value of the outstanding copper hedge contracts was $8.8 million as of December 31, 2005. Should the market prices of copper decline 20% from the year-end 2005 levels, the gain on these contracts and pre-tax income would be reduced by $1.5 million. This calculation does not take into account any change in sales volume as a result of changes in the copper prices or the margin benefit from selling products with a lower copper cost.

We are exposed to changes in interest rates on our debt and cash balances. This interest rate exposure is managed by maintaining a combination of short-term and long-term debt and variable and fixed rate instruments. We also use interest rate swaps to fix the interest rate on variable debt obligations, as we deem appropriate. Excess cash is typically invested in high quality instruments that mature in 90 days or less. Investments are made in compliance with policies approved by the Board of Directors. We had $35.2 million in variable rate debt and a variable-to-fixed interest rate swap with a notional value of $37.0 million outstanding at December 31, 2005. If interest rates were to increase 200 basis points (2.0%) from the December 31, 2005 rates and assuming no changes in debt from the December 31, 2005 levels, the net interest expense would increase by $0.7 million; however this would be offset by a reduced loss and/or increased gain on the interest rate swap.

Portions of our international operations sell products priced in foreign currencies, mainly the euro, yen and sterling, while the majority of these products' costs are incurred in U.S. dollars. We are exposed to currency movements in that if the U.S. dollar strengthens, the translated value of the foreign currency sale and the resulting margin on that sale will be reduced. We typically cannot increase the price of our products for short-term exchange rate movements because of local competition. To minimize this exposure, we may purchase foreign currency forward contracts, options and collars in compliance with approved policies. Should the dollar strengthen, the decline in the translated value of the margins should be offset by a gain on the hedge contract. A decrease in the value of the dollar would result in larger margins but potentially a loss on the contract, depending upon the method used to hedge the exposure. The notional value of the outstanding currency contracts was $32.1 million as of December 31, 2005. If the dollar weakened 10% against the currencies in which we sell from the December 31, 2005 exchange rates, the reduced gain and/or increased loss on the outstanding contracts as of December 31, 2005 would reduce pre-tax profits by approximately $2.5 million. This calculation does not take into account the increase in margins as a result of translating foreign currency sales at the more favorable exchange rates, any changes in margins from potential volume fluctuations caused by currency movements or the translation effects on any other foreign currency denominated income statement or balance sheet item.

The fair values of derivatives, which are determined by financial institutions and represent the market price for the instrument between two willing parties, are recorded on the balance sheet. Changes in the fair value of outstanding derivatives are recorded in equity or against income as appropriate under the applicable guidelines. The fair value of the outstanding foreign currency contracts was an asset of $1.5 million at December 31, 2005, indicating that the average hedge rates were favorable compared to the actual year-end market exchange rates. The fair value of

the outstanding copper hedge contracts was an asset of $1.9 million as of December 31, 2005 indicating that the hedged rates were lower than the current price of copper. The year-end 2005 fair value of the interest rate swap was a loss of $1.2 million as the available interest rates were lower than the rates fixed under the swap contract. The net derivative income recorded in OCI was $4.0 million as of December 31, 2005 compared to a derivative loss of $4.0 million as of December 31, 2004.

We are also exposed to the risk of fluctuating utility costs. The cost of natural gas in particular increased during the second half of 2005. Our total utility cost in 2005 was approximately $19.0 million. This cost may fluctuate in future periods based upon changes in rates as well as consumption levels. The consumption level in a given year is in turn dependent upon the level of production activity as well as the climate. Changes in the weather from year to year can impact the heating requirements as our larger facilities are in northern U.S. climates.

OUTLOOK

We entered 2006 with improving conditions in various portions of our major markets. Demand from the telecommunications and computer market has been strengthening while the magnetic and optical data storage market remains robust. We are also seeing growth in a number of our other markets and our new products continue to gain traction. Our sales in 2006 will include a full year's results from WAM's three recent acquisitions, which is estimated to be $37 to $39 million. We are planning on expanding the OMC business by opening a new operation in Eastern Europe in 2006. Demand for defense and government applications slowed down during 2005, but we believe this to be temporary and anticipate improvements in the latter portion of 2006. The financial condition of Delphi and its long-term effect on the automotive market in the U.S. is uncertain. The softening demand from the automotive market appeared to level off and perhaps improve slightly early in 2006, but this may be caused by planned downstream inventory builds in anticipation of a potential strike at Delphi.

Sales order entry rates strengthened throughout the second half of 2005 and the backlog at the beginning of 2006 is 12% larger than it was at the beginning of 2005. While an improved backlog is not a guarantee that sales will be higher, based upon a combination of factors, we are estimating that sales in 2006 will be in the range of $580.0 to $600.0 million.

Copper prices continued to increase in the early portion of 2006 and are at an all-time high, putting pressures on margins to the extent that these costs cannot be passed through to customers. We have a portion of our copper exposure hedged, but the hedges can only provide a temporary relief from the higher copper prices. Higher utility costs, particularly natural gas, may also negatively impact margins in future periods. We will continue to use our Lean Sigma techniques and other processes to improve efficiencies and yields in order to balance out these cost pressures. We will implement price increases and/or float copper prices to customers where possible. We also believe that we should see an improved product mix going forward with the increased demand.

Competitive pressures and customer efforts to design out of our precious and beryllium-containing materials (which tend to be higher priced) require us to continually develop new applications and/or improve the properties of our products. We believe we are making progress in diversifying our product offerings with various new applications from each of our major businesses.

Interest costs are anticipated to be lower in 2006 than 2005. With the payoff of the subordinated term loan, our average effective borrowing has been reduced. The amortization of the existing deferred financing costs will be $0.6 million lower in 2006 than in 2005 due to the costs written off in 2005.

Profitability in 2005 was reduced by the one-time $4.4 million debt prepayment charges. As noted in the Critical Accounting Policies section of this Management's Discussion and Analysis, we will be recording income tax expense without regard to the deferred tax valuation allowance beginning in the first quarter 2006. As a result of the above, we are currently estimating that diluted earnings per share will be in the range of $0.80 to $0.95 in 2006.

FORWARD-LOOKING STATEMENTS

Portions of the narrative set forth in this document that are not statements of historical or current facts are forward-looking statements. Our actual future performance may materially differ from that contemplated by the forward-looking statements as a result of a variety of factors. These factors include, in addition to those mentioned elsewhere herein:

- The global and domestic economies;
- The condition of the markets which we serve, whether defined geographically or by segment, with the major market segments being telecommunications and computer, magnetic and optical data storage, aerospace and defense, automotive electronics, industrial components and appliance;
- Changes in product mix and the financial condition of customers;
- Our success in developing and introducing new products and applications;
- Our success in integrating newly acquired businesses;
- Our success in implementing our strategic plans and the timely and successful completion of any capital projects;
- The availability of adequate lines of credit and the associated interest rates;
- Other financial factors, including cost and availability of materials, tax rates, exchange rates, pension and other employee benefit costs, energy costs, regulatory compliance costs, and the cost and availability of insurance;
- The uncertainties related to the impact of war and terrorist activities;
- Changes in government regulatory requirements and the enactment of new legislation that impacts our obligations; and,
- The conclusion of pending litigation matters in accordance with our expectation that there will be no material adverse effects.

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND MANAGEMENT

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Brush Engineered Materials Inc.

We have audited the accompanying Consolidated Balance Sheets of Brush Engineered Materials Inc. and subsidiaries as of December 31, 2005 and 2004, and the related Consolidated Statements of Income, Shareholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brush Engineered Materials Inc. and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Brush Engineered Materials Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Cleveland, Ohio
March 3, 2006

REPORT OF MANAGEMENT

The management of Brush Engineered Materials Inc. and subsidiaries is responsible for the contents of the financial statements, which are prepared in conformity with generally accepted accounting principles. The financial statements necessarily include amounts based on judgments and estimates. Financial information elsewhere in the annual report is consistent with that in the financial statements.

The Company maintains a comprehensive accounting system, which includes controls designed to provide reasonable assurance as to the integrity and reliability of the financial records and the protection of assets. However, there are inherent limitations in the effectiveness of any system of internal controls and, therefore, it provides only reasonable assurance with respect to financial statement preparation. An internal audit staff is employed to regularly test and evaluate both internal accounting controls and operating procedures, including compliance with the Company's Statement of Policy regarding ethical and lawful conduct. The role of the independent registered public accounting firm is to provide an objective review of the financial statements and the underlying transactions in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors, comprised solely of Directors who are not members of management, meets regularly with management, the independent registered public accounting firm, and the internal auditors to ensure that their respective responsibilities are properly discharged. The independent registered public accounting firm and the internal audit staff have full and free access to the Audit Committee.

John D. Grampa
Vice President Finance and Chief Financial Officer

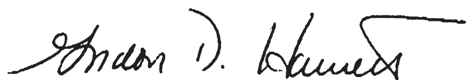
REPORTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Brush Engineered Materials Inc. and subsidiaries is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Brush Engineered Materials Inc. and subsidiaries' internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Brush Engineered Materials Inc. and subsidiaries' management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, it used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) in Internal Control-Integrated Framework. Based on our assessment, we believe that, as of December 31, 2005, the Company's internal control over financial reporting is effective.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report herein.



Gordon D. Harnett
Chairman and Chief Executive Officer

John D. Grampa
Vice President Finance and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Brush Engineered Materials Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Brush Engineered Materials Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

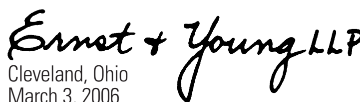
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Brush Engineered Materials Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Brush Engineered Materials Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of Brush Engineered Materials Inc. and subsidiaries as of December 31, 2005 and 2004, and the related Consolidated Statements of Income, Shareholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2005 and our report dated March 3, 2006 expressed an unqualified opinion thereon.



Cleveland, Ohio
March 3, 2006

CONSOLIDATED STATEMENTS OF INCOME

Brush Engineered Materials Inc. and Subsidiaries, Years ended December 31, 2005, 2004 and 2003
(Dollars in thousands except share and per share amounts)

	2005	2004	2003
Net sales	**$ 541,267**	$ 496,276	$ 401,046
Cost of sales	**431,024**	385,202	328,008
Gross profit	**110,243**	111,074	73,038
Selling, general and administrative expense	**78,457**	77,267	68,834
Research and development expense	**4,990**	4,491	4,230
Other - net	**7,287**	4,282	8,918
Operating profit (loss)	**19,509**	25,034	(8,944)
Interest expense	**6,372**	8,377	3,751
Income (loss) before income taxes	**13,137**	16,657	(12,695)
Minority interest	**–**	–	(45)
Income taxes (benefit):			
Currently payable	**1,163**	1,349	855
Deferred	**(5,851)**	(208)	(279)
	(4,688)	1,141	576
Net income (loss)	**$ 17,825**	$ 15,516	$ (13,226)
Net income (loss) per share of common stock - basic	**$ 0.93**	$ 0.87	$ (0.80)
Weighted-average number of shares of common stock outstanding - basic	**19,219,099**	17,865,053	16,562,864
Net income (loss) per share of common stock - diluted	**$ 0.92**	$ 0.85	$ (0.80)
Weighted-average number of shares of common stock outstanding - diluted	**19,370,748**	18,163,915	16,562,864

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Brush Engineered Materials Inc. and Subsidiaries, Years ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

	2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	**$ 17,825**	$ 15,516	$ (13,226)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:			
Depreciation, depletion and amortization	**21,675**	21,173	19,107
Amortization of mine development	**–**	1,188	1,228
Amortization of deferred financing costs in interest expense	**1,115**	1,465	396
Deferred financing cost write-off	**2,738**	–	99
Deferred tax (benefit) expense	**(5,851)**	(208)	(279)
Derivative financial instruments ineffectiveness	**(801)**	368	5,054
Decrease (increase) in accounts receivable	**(10,032)**	(3,624)	(6,590)
Decrease (increase) in inventory	**(9,562)**	(6,830)	8,646
Decrease (increase) in prepaid and other current assets	**(386)**	(1,806)	4,871
Increase (decrease) in accounts payable and accrued expenses	**(5,516)**	223	2,308
Increase (decrease) in unearned revenue	**(7,535)**	7,789	–
Increase (decrease) in interest and taxes payable	**(2,494)**	2,101	1,221
Increase (decrease) in long-term liabilities	**1,921**	(1,925)	(443)
Other - net	**368**	3,490	3,920
Net cash provided from operating activities	**3,465**	38,920	26,312
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	**(13,775)**	(9,093)	(6,162)
Payments for purchase of business less cash received	**(11,497)**	–	–
Payments for mine development	**–**	(57)	(157)
Purchase of equipment previously held under operating lease	**(448)**	(880)	(51,846)
Proceeds from sale of property, plant and equipment	**60**	711	203
Other investments - net	**(48)**	(62)	–
Net cash (used in) investing activities	**(25,708)**	(9,381)	(57,962)
Cash flows from financing activities:			
Proceeds from issuance/(repayment) of short-term debt	**11,679**	(274)	(9,266)
Proceeds from issuance of long-term debt	**22,000**	2,881	72,000
Repayment of long-term debt	**(49,618)**	(29,346)	(26,034)
Debt issuance costs	**(125)**	(250)	(4,636)
Issuance of common stock	**–**	38,711	–
Issuance of common stock under stock option plans	**372**	3,236	25
Net cash provided from (used in) financing activities	**(15,692)**	14,958	32,089
Effects of exchange rate changes on cash and cash equivalents	**(1,066)**	84	266
Net change in cash and cash equivalents	**(39,001)**	44,581	705
Cash and cash equivalents at beginning of year	**49,643**	5,062	4,357
Cash and cash equivalents at end of year	**$ 10,642**	$ 49,643	$ 5,062

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Brush Engineered Materials Inc. and Subsidiaries, as of December 31, 2005 and 2004
(Dollars in thousands)

Assets	**2005**	2004
Current assets		
Cash and cash equivalents	**$ 10,642**	$ 49,643
Accounts receivable (less allowance of $1,315 for 2005, and $1,555 for 2004)	**69,938**	59,229
Inventories	**104,060**	95,271
Prepaid expenses	**14,417**	8,348
Deferred income taxes	**1,118**	275
Total current assets	**200,175**	212,766
Other assets	**8,252**	14,518
Related-party notes receivable	**358**	358
Long-term deferred income taxes	**4,109**	928
Property, plant, and equipment	**540,420**	540,937
Less allowances for depreciation, amortization and depletion	**(363,358)**	(363,318)
Property, plant, and equipment - net	**177,062**	177,619
Goodwill	**12,746**	7,992
Total Assets	**$ 402,702**	$ 414,181
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term debt	**$ 23,634**	$ 11,692
Current portion of long-term debt	**636**	19,209
Accounts payable	**20,872**	13,234
Salaries and wages	**16,307**	23,741
Taxes other than income taxes	**2,294**	2,486
Other liabilities and accrued items	**19,921**	24,225
Unearned revenue	**254**	7,789
Income taxes	**726**	1,591
Total current liabilities	**84,644**	103,967
Other long-term liabilities	**8,202**	10,798
Retirement and post-employment benefits	**65,290**	49,729
Deferred income taxes	**172**	–
Long-term debt	**32,916**	41,549
Shareholders' equity		
Serial preferred stock, no par value; 5,000,000 authorized shares, none issued	**–**	–
Common stock, no par value; 60,000,000 authorized shares; 25,556,471 issued shares (25,526,516 in 2004)	**137,665**	137,247
Retained income	**214,497**	196,672
Common stock in treasury, 6,315,214 shares (6,307,009 in 2004)	**(105,795)**	(105,675)
Other comprehensive income (loss)	**(35,037)**	(19,933)
Other equity transactions	**148**	(173)
Total shareholders' equity	**211,478**	208,138
Total Liabilities and Shareholders' Equity	**$ 402,702**	$ 414,181

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Brush Engineered Materials Inc. and Subsidiaries, Years ended December 31, 2005, 2004 and 2003
(Dollars in thousands except for share amounts)

	Common Stock	Warrants	Retained Income	Common Stock in Treasury	Other Comprehensive Income (loss)	Other	Total
Balances at January 1, 2003	$ 93,311	$ –	$ 194,382	$(105,245)	$ (22,859)	$ (495)	$ 159,094
Net loss	–	–	(13,226)	–	–	–	(13,226)
Foreign currency translation adjustment	–	–	–	–	475	–	475
Derivative and hedging activity	–	–	–	–	4,623	–	4,623
Minimum pension liability	–	–	–	–	967	–	967
Comprehensive loss							(7,161)
Proceeds from sale of 1,900 shares under option plans	21	–	–	–	–	–	21
Income tax benefit from employees' stock options	4	–	–	–	–	–	4
Issuance of 115,000 warrants	–	1,616	–	–	–	–	1,616
Other equity transactions	–	–	–	(229)	–	359	130
Forfeiture of restricted stock	–	–	–	(159)	–	28	(131)
Balances at December 31, 2003	93,336	1,616	181,156	(105,633)	(16,794)	(108)	153,573
Net income	–	–	15,516	–	–	–	15,516
Foreign currency translation adjustment	–	–	–	–	849	–	849
Derivative and hedging activity	–	–	–	–	(809)	–	(809)
Minimum pension liability	–	–	–	–	(3,179)	–	(3,179)
Comprehensive income							12,377
Proceeds from sale of 228,298 shares under option plans	3,236	–	–	–	–	–	3,236
Proceeds from stock offering of 2,250,000 shares	38,711	–	–	–	–	–	38,711
Exercise of 115,000 warrants	1,616	(1,616)	–	–	–	–	–
Other equity transactions	348	–	–	141	–	(131)	358
Forfeiture of restricted stock	–	–	–	(183)	–	66	(117)
Balances at December 31, 2004	137,247	–	196,672	(105,675)	(19,933)	(173)	208,138
Net income	–	–	17,825	–	–	–	17,825
Foreign currency translation adjustment	–	–	–	–	(2,055)	–	(2,055)
Derivative and hedging activity	–	–	–	–	8,006	–	8,006
Minimum pension liability	–	–	–	–	(21,055)	–	(21,055)
Comprehensive income							2,721
Proceeds from sale of 29,955 shares under option plans	372	–	–	–	–	–	372
Other equity transactions	46	–	–	27	–	321	394
Forfeiture of restricted stock	–	–	–	(147)	–	–	(147)
Balances at December 31, 2005	$ 137,665	$ –	$ 214,497	$(105,795)	$ (35,037)	$ 148	$ 211,478

See Notes to Consolidated Financial Statements.

NOTE A – Significant Accounting Policies

Organization: The Company is a holding company with subsidiaries that have operations in the United States, Europe and Asia. These operations manufacture engineered materials used in a variety of markets, including telecommunications and computer electronics, automotive electronics, magnetic and optical data storage, aerospace and defense, industrial components and appliance. The Company's operations are aggregated into two business segments – the Metal Systems Group and the Microelectronics Group – based upon the commonalities of their products, manufacturing processes, customers and other factors. The Metal Systems Group produces strip and bulk alloys (primarily copper beryllium), beryllium metal products and engineered material systems while the Microelectronics Group manufactures precious and non-precious vapor deposition targets, frame lid assemblies, other precious and non-precious metal products, ceramics, electronic packages and thick film circuits. The Company is vertically integrated and distributes its products through a combination of company-owned facilities and independent distributors and agents.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Consolidation: The Consolidated Financial Statements include the accounts of Brush Engineered Materials Inc. and its subsidiaries. All of the Company's subsidiaries are wholly owned as of December 31, 2005. Intercompany accounts and transactions are eliminated in consolidation.

Cash Equivalents: All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Accounts Receivable: An allowance for doubtful accounts is maintained for the estimated losses resulting from the inability of customers to pay the amounts due. The allowance is based upon identified delinquent accounts, customer payment patterns and other analyses of historical data and trends. The Company extends credit to customers based upon their financial condition and generally collateral is not required.

Inventories: Inventories are stated at the lower of cost or market. The cost of domestic inventories except ore and supplies is principally determined using the last-in, first-out (LIFO) method. The remaining inventories are stated principally at average cost.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost. Depreciation is computed principally by the straight-line method, except certain facilities for which depreciation is computed by the sum-of-the-years digits or units-of-production method. Depreciable lives that are used in computing the annual provision for depreciation by class of asset are as follows:

	Years
Land improvements	5 to 25
Buildings	10 to 40
Leasehold improvements	Life of lease
Machinery and equipment	3 to 15
Furniture and fixtures	4 to 15
Automobiles and trucks	2 to 8
Research equipment	6 to 12
Computer hardware	3 to 10
Computer software	3 to 10

Leasehold improvements will be depreciated over the life of the improvement if it is shorter than the life of the lease. Repair and maintenance costs are expensed as incurred.

Mineral Resources and Mine Development: Property acquisition costs are capitalized as mineral resources on the balance sheet and are depleted using the units-of-production method based upon recoverable proven reserves. Overburden, or waste rock, is removed prior to the extraction of the ore from a particular open pit. The removal cost is capitalized and amortized as the ore is extracted using the units-of-production method based upon the proven reserves in that particular pit. Exploration and development expenses, including development drilling, are charged to expense in the period in which they are incurred.

Intangible Assets: Goodwill is not amortized, but instead reviewed annually at December 31, or more frequently under certain circumstances, for impairment. Goodwill is assigned to the lowest level reporting unit that the associated cash flows can be appropriately measured. Intangible assets with finite lives are amortized using the straight-line method or effective interest method, as applicable, over the periods estimated to be benefited, which is generally 20 years or less. Finite-lived intangible assets are also reviewed for impairment if facts and circumstances warrant.

Asset Impairment: In the event that facts and circumstances indicate that the carrying value of long-lived and definite-lived intangible assets may be impaired, an evaluation of recoverability is performed. If an evaluation is required, the estimated future undiscounted cash flow associated with the asset or asset group would be compared to the carrying amount to determine if a write-down is required.

Derivatives: The Company recognizes all derivatives on the balance sheet at their fair values. If the derivative is a hedge, depending upon the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged asset, liability or firm commitment through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, if any, is recognized in earnings immediately. If a derivative is not a hedge, changes in its fair value are adjusted through income.

Asset Retirement Obligation: The Company records a liability to recognize the legal obligation to remove an asset at the time the asset is acquired or when the legal liability arises. The liability is recorded for the present value of the ultimate obligation by discounting the estimated future cash flows using a credit-adjusted risk-free interest rate. The liability is accreted over time, with the accretion charged to expense. An asset equal to the fair value of the liability is recorded concurrent with the liability and depreciated over the life of the underlying asset.

Revenue Recognition: The Company recognizes revenue when the goods are shipped and title passes to the customer. The Company requires persuasive evidence that a revenue arrangement exists, delivery of the product has occurred, the selling price is fixed or determinable and collectibility is reasonably assured before revenue is realized and earned. Billings under long-term sales contracts in advance of the shipment of the

goods are recorded as unearned revenue, which is a liability on the balance sheet. Revenue is only recognized for these transactions when the goods are shipped and all other revenue recognition criteria are met.

Shipping and Handling Costs: The Company records shipping and handling costs for products sold to customers in cost of sales on the Consolidated Statements of Income.

Advertising Costs: The Company expenses all advertising costs as incurred. Advertising costs were $0.8 million in 2005, $1.0 million in 2004 and $0.8 million in 2003.

Income Taxes: The Company uses the liability method in measuring the provision for income taxes and recognizing deferred tax assets and liabilities on the balance sheet. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Net Income Per Share: Basic earnings per share (EPS) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive common stock equivalents as appropriate under the treasury stock method.

Reclassification: Certain amounts in prior years have been reclassified to conform to the 2005 consolidated financial statement presentation.

Variable Interest Entities: The Financial Accounting Standards Board (FASB) issued Financial Interpretation (FIN) 46, "Consolidation of Variable Interest Entities" in January 2003 effective for periods ending subsequent to June 15, 2003 for variable entities for which an enterprise holds a variable interest that it acquired prior to February 1, 2003. The release clarified the application of Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements" to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from others. The Company adopted FIN 46 as proscribed and its adoption did not have a material impact on the Company's results of operations or financial position.

Stock Options: The Company provides a stock incentive plan for eligible employees. See Note K to the Consolidated Financial Statements for further details. The Company has adopted the disclosure-only provisions of Statement No. 123, "Accounting for Stock-Based Compensation" and applies the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock incentive plan. If the Company had elected to recognize compensation expense for its stock incentive plan awards based on the estimated fair value of the awards on the grant dates, consistent with the method prescribed by Statement No. 123 by amortizing the expense over the options' vesting period, the pro forma net income (loss) and earnings per share (EPS) would have been as noted below:

(Dollars in thousands, except per share data)	**2005**	2004	2003
Net income (loss) – as reported	**$ 17,825**	$ 15,516	$ (13,226)
Pro forma stock option expense	**(1,947)**	(1,882)	(1,095)
Net income (loss) – pro forma	**$ 15,878**	$ 13,634	$ (14,321)
Basic E.P.S. – as reported	**$ 0.93**	$ 0.87	$ (0.80)
Basic E.P.S. – pro forma	**$ 0.83**	$ 0.76	$ (0.86)
Diluted E.P.S. – as reported	**$ 0.92**	$ 0.85	$ (0.80)
Diluted E.P.S. – pro forma	**$ 0.82**	$ 0.75	$ (0.86)

Note: The pro forma disclosures shown are not representative of the effects on net income and earnings per share in future years.

The weighted-average fair value of the Company's stock options used to compute the pro forma net income and earnings per share disclosures is $8.18, $7.72 and $2.79 for 2005, 2004 and 2003, respectively. The fair value is the estimated present value at grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions for the various grants in 2005, 2004 and 2003:

	2005	2004	2003
Risk-free interest rate	**4.72%**	3.26%	3.63%
Dividend yield	**0%**	0%	0%
Volatility of stock	**42.0%**	41.8%	39.5%
Expected life of option	**6 years**	6 years	8 years

New Pronouncements: The FASB issued Statement No. 151, "Inventory Costs", in November 2004, which amends ARB No. 43. The statement requires idle facility expense, excessive spoilage, double freight and rehandling costs to be treated as current period charges regardless of whether they meet the ARB No. 43 criteria of "so abnormal". The statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company adopted this statement effective in the first quarter 2006 and is currently assessing the impact of adoption on the results of operations and financial condition.

The FASB issued FASB Staff Position (FSP) 109-1, "Application of FASB Statement No. 109, *Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" and FSP 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" in December 2004. These FSPs provide accounting and disclosure guidelines relative to the income tax deductions and repatriation provisions contained in the American Jobs Creation Act of 2004 (the Act). The FSPs were effective upon issuance. Adoption of these FSP's did not have a material impact on the Company's results of operations or financial condition.

The FASB issued Statement No. 123 (Revised 2004), "Share-Based Payments", in December 2004 that revises Statement No. 123, "Accounting for Stock-Based Compensation", and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". The revised statement requires compensation cost for all share-based payments, including employee stock options, to be measured at fair value and charged against income. Compensation cost would be determined at the date of the award through

the use of a pricing model and charged against income over the vesting period for each award. The revised statement is effective for fiscal years beginning after June 15, 2005. The Company adopted this statement effective January 1, 2006. The Company has estimated, based upon the unvested options outstanding at December 31, 2005, that the stock option expense will be approximately $0.3 million in 2006. The pro forma effects on net income and income per share for 2005, 2004 and 2003 of using the Black-Scholes model to calculate the fair value of outstanding stock options had the provisions of Statement No. 123 been applied in those years are set forth earlier in this note.

The FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations", in March 2005. The interpretation clarified that the term "conditional asset retirement obligation", as used in Statement No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The interpretation also clarified when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The interpretation is effective no later than the end of fiscal years ending after December 31, 2005 for calendar-year enterprises. The adoption of this interpretation did not have a material impact on its results of operations or financial condition.

The FASB issued Statement No. 154, "Accounting Changes and Error Corrections", which replaces APB Opinion No. 20, "Accounting Changes", and Statement No. 3. "Reporting Accounting Changes in Interim Financial Statements", in May 2005. The statement changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement if that pronouncement does not include specific transition provisions. The statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impractical to determine the period-specific effects or the cumulative effect of the change (in which case the statement provides additional guidance). The statement requires that retrospective application of a change in accounting principle be limited to the direct effect of the change. The correction of an error by the restatement of previously issued financial statements is also addressed by the statement. The statement is effective for accounting changes and correction of errors made in fiscal years commencing after December 31, 2005. The Company does not believe that adoption of this statement will have a material impact on its results of operations or financial condition.

NOTE B – Acquisitions

In May 2005, Williams Advanced Materials Inc. (WAM), through its wholly owned subsidiary in the Netherlands, purchased the stock of OMC Scientific Holdings Limited (OMC) of Limerick, Ireland for $4.0 million in cash. OMC provides physical vapor deposition material cleaning and reconditioning services for customers in the magnetic media and data storage, semiconductor and other markets in Europe.

In October 2005, WAM purchased the stock of Thin Film Technology, Inc. (TFT) of Buellton, California for $7.6 million in cash. An additional $0.5 million was placed in escrow pending final determination of the value of various assets and liabilities assumed. TFT manufactures precision optical coatings, photolithography, thin film hybrid circuits and specialized thin film coatings. TFT's products are used in the defense, medical and other commercial markets.

The results of the above-acquired businesses were included in the Company's financial statements since their respective acquisition dates. Sales from OMC and TFT were immaterial to the total Company sales in 2005. The goodwill assigned and other intangible assets purchased as a result of these acquisitions are detailed in Note E to the Consolidated Financial Statements.

NOTE C – Inventories

Inventories in the Consolidated Balance Sheets are summarized as follows:

(Dollars in thousands)	December 31, 2005	2004
Principally average cost:		
Raw materials and supplies	**$ 24,050**	$ 22,705
Work in process	**88,480**	77,438
Finished goods	**30,553**	27,538
Gross inventories	**143,083**	127,681
Excess of average cost over LIFO inventory value	**39,023**	32,410
Net inventories	**$ 104,060**	$ 95,271

Average cost approximates current cost. Gross inventories accounted for using the LIFO method totaled $97.0 million at December 31, 2005 and $85.7 million at December 31, 2004. The liquidation of LIFO inventory layers reduced cost of sales by $0.6 million in 2005 and $0.4 million in 2004.

NOTE D – Property, Plant and Equipment

Property, plant and equipment on the Consolidated Balance Sheets is summarized as follows:

(Dollars in thousands)	December 31, 2005	2004
Land	**$ 6,954**	$ 7,305
Buildings	**101,074**	98,905
Machinery and equipment	**402,517**	389,761
Software	**20,608**	20,430
Construction in progress	**4,238**	5,122
Allowances for depreciation	**(361,308)**	(346,883)
	174,083	174,640
Mineral resources	**5,029**	5,029
Mine development	**–**	14,385
Allowances for amortization and depletion	**(2,050)**	(16,435)
	2,979	2,979
Property, plant and equipment - net	**$ 177,062**	$ 177,619

Depreciation expense was $21.5 million in 2005, $21.1 million in 2004 and $18.6 million in 2003.

Fully amortized mine development costs of $14.4 million were written off in 2005 as those mines were no longer in use.

NOTE E – Intangible Assets

Assets Acquired

The Company acquired the following intangible assets as part of the purchase of the OMC Scientific Holdings Limited and Thin Film Technology, Inc. businesses in 2005:

(Dollars in thousands)	Amount	Weighted-average Amortization Period
Customer relationship	$ 1,650	7.0 Years
Technology	420	10.0 Years
Total assets subject to amortization	$ 2,070	7.6 Years
Goodwill	$ 4,754	Not Applicable

See Note B to the Consolidated Financial Statements for additional information on the associated business acquisitions.

Assets Subject to Amortization

The cost, accumulated amortization and net book value of intangible assets subject to amortization as of December 31, 2005 and 2004 and the amortization expense for each year then ended is as follows:

(Dollars in thousands)	2005	2004
Deferred financing costs		
Cost	$ 3,284	$ 7,397
Accumulated amortization	(1,588)	(2,250)
Net book value	1,696	5,147
Customer relationship		
Cost	1,650	–
Accumulated amortization	(157)	–
Net book value	1,493	–
Technology		
Cost	420	–
Accumulated amortization	(11)	–
Net book value	409	–
Patents		
Cost	690	690
Accumulated amortization	(520)	(471)
Net book value	170	219
Total		
Cost	$ 6,044	$ 8,087
Accumulated amortization	(2,276)	(2,721)
Net book value	$ 3,768	$ 5,366
Aggregate amortization expense	$ 1,331	$ 1,514

The aggregate amortization expense is estimated to be $0.9 million in 2006, $0.7 million in 2007, $0.7 million in 2008, $0.6 million in 2009 and $0.3 million in 2010.

Deferred financing costs with a net book value of $2.7 million in 2005 were expensed as a result of the prepayment of the associated debt instruments in that year.

Intangible assets are included in other assets on the Consolidated Balance Sheets.

Assets Not Subject to Amortization

The carrying value of intangible assets not subject to amortization as of December 31, 2005 and 2004 is as follows:

(Dollars in thousands)	2005	2004
Goodwill	$ 12,746	$ 7,992

The only change to goodwill in either of the years presented was as a result of the acquisitions of OMC and TFT in 2005. None of the goodwill acquired in 2005 was deductible for tax purposes. There were no goodwill impairments recorded in the years presented. All of the goodwill has been assigned to reporting units within the Microelectronics Group.

NOTE F – Debt

A summary of long-term debt follows:

(Dollars in thousands)	December 31, 2005	2004
Senior Credit Agreement:		
Revolving credit agreement	$ 22,000	$ –
Senior five-year term note payable in installments beginning in 2004	–	11,143
Senior five-year term note payable in installments beginning in 2004	–	7,429
Variable rate demand bonds payable in installments beginning in 2005	2,400	3,000
Variable rate promissory note – Utah land purchase payable in 20 annual installments through 2021	847	881
Variable rate industrial development revenue bonds payable in 2016	8,305	8,305
Subordinated five-year term note	–	30,000
	33,552	60,758
Current portion of long-term debt	(636)	(19,209)
Total	$ 32,916	$ 41,549

Maturities on long-term debt instruments as of December 31, 2005 are as follows:

2006	$ 636
2007	638
2008	640
2009	22,642
2010	44
Thereafter	8,952
Total	$ 33,552

The Company has a senior secured credit agreement with five financial institutions that expires December 3, 2009. At December 31, 2005 maximum availability under this facility was $122.1 million. It consists of a $125.0

million revolving credit line secured by the Company's working capital, real estate, machinery and equipment and includes a total of $45.0 million availability on a declining basis to compensate for any shortfall in the basis of the collateral. Additionally, the facility is secured by a first lien on the stock of certain of the Company's direct and indirect subsidiaries. The credit agreement allows the Company to borrow money at a premium over LIBOR or prime rate and at varying maturities. The premium resets quarterly according to the terms and conditions available under the agreement. In October 2005, the credit facility was amended to revise certain items including pricing, definitions, reporting and allowable transactions. In December 2005, the facility was amended to, among other things, revise collateral amounts and increase the commitment from $105.0 million to $125.0 million. The credit agreement is subject to restrictive covenants including leverage, fixed charges, and capital expenditures. At December 31, 2005, long-term borrowings totaling $22.0 million were outstanding under the revolving credit line at an average rate of 5.33%. An additional $5.1 million of short-term borrowings was outstanding under the revolving credit agreement as of December 31, 2005. The Company pays a commitment fee of 0.25% on the unused borrowings under the revolving credit agreement.

At December 31, 2004, the credit facility included two term notes secured by real estate and machinery and equipment that had outstanding borrowings of $18.6 million. The term notes were originally drawn at a total of $20.0 million in December of 2003 and were reduced by quarterly scheduled principal payments that began in July 2004. In December 2004, the credit agreement was amended to allow prepayment of the term loans and the re-borrowing of those funds under the revolver up to amounts limited by the original term loan amortization schedules. The Company exercised its right to prepay the term notes in full in January 2005.

A line of credit from Exim that provided an available credit capacity of $7.5 million and which was secured by certain foreign accounts receivable was terminated in December 2004. There had been no borrowings under this facility.

In December 2003, the Company refinanced its existing revolving line of credit and a synthetic operating lease with the credit agreement discussed above and a $35.0 million subordinated term note, that was secured by a second lien on the Company's working capital, real estate and machinery and equipment, and was payable in December 2008. The Company prepaid $5.0 million of this note in July 2004 as allowed without penalty. At December 2004, the Company had $30.0 million in long-term borrowings outstanding on this note at an average rate of 16.1%. The rate was based on variable prime plus a premium and reset quarterly. To hedge a portion of this variability, the Company entered into an interest rate swap, fixing the prime rate at 6.98% for a notional value of $10.0 million over the life of the note. The subordinated term note was subject to restrictive covenants including leverage, fixed charges, the issuance of dividends and capital expenditures. The subordinated term note was also secured by a second lien on the stock of certain of the Company's direct and indirect subsidiaries. In December 2005, the Company prepaid the $30.0 million remaining principal in addition to $1.6 million in prepayment penalty fees and incurred an expense of $2.2 million for the write-off of unamortized deferred finance costs. The interest rate swap was also monetized and terminated at that time.

The following table summarizes the Company's short-term lines of credit. Amounts shown as outstanding are included in short-term debt on the Consolidated Balance Sheets.

	December 31, 2005		
(Dollars in thousands)	Total	Outstanding	Available
Domestic	**$ 76,930**	**$ 5,123**	**$ 71,807**
Foreign	**9,932**	**6,204**	**3,728**
Precious metal	**12,307**	**12,307**	**–**
Total	**$ 99,169**	**$ 23,634**	**$ 75,535**

	December 31, 2004		
(Dollars in thousands)	Total	Outstanding	Available
Domestic	$ 36,252	$ –	$ 36,252
Foreign	5,084	1,202	3,882
Precious metal	10,490	10,490	–
Total	$ 51,826	$ 11,692	$ 40,134

The domestic line is committed and included in the $125.0 million maximum borrowing under the revolving credit agreement. The Company has various foreign lines of credit, one of which is for 4 million Euros, committed and secured. The remaining foreign lines are uncommitted, unsecured and renewed annually. The precious metal facility (primarily gold) is secured and renewed annually. The average interest rate on short-term debt was 3.87% and 4.34% as of December 31, 2005 and 2004, respectively.

In November 1996, the Company entered into an agreement with the Lorain Port Authority, Ohio to issue $8.3 million in variable rate industrial revenue bonds, maturing in 2016. The variable rate ranged from 1.74% to 3.80% in 2005 and from 1.15% to 2.25% in 2004.

In 1994, the Company re-funded its $3.0 million industrial development revenue bonds into variable rate demand bonds. The variable rate ranged from 1.55% and 3.60% in 2005 and from 0.95% to 2.06% during 2004.

NOTE G – Leasing Arrangements

The Company leases warehouse and manufacturing space, and manufacturing and computer equipment under operating leases with terms ranging up to 25 years. Rent expense amounted to $6.6 million, $7.6 million, and $16.2 million, during 2005, 2004, and 2003, respectively. The future estimated minimum lease payments under non-cancelable operating leases with initial lease terms in excess of one year at December 31, 2005, are as follows: 2006 - $5.1 million; 2007 - $4.8 million; 2008 - $4.2 million; 2009 - $4.1 million; 2010 - $3.4 million and thereafter - $4.1 million.

The Company has an operating lease for one of its major production facilities. This facility is owned by a third party and cost approximately $20.3 million to build. Occupancy of the facility began in 1997. Lease payments for the facility continue through 2011 with options for renewal. The estimated minimum payments are included in the preceding paragraph. The facility lease is subject to certain restrictive covenants including leverage, fixed charges and annual capital expenditures.

The 2003 rent expense of $16.2 million includes $9.3 million for equipment at the Elmore, Ohio facility that was purchased with a portion of the loan proceeds from the December 2003 refinancing.

NOTE H – Derivative Financial Instruments and Fair Value Information

The Company is exposed to interest rate, commodity price and foreign currency exchange rate differences and attempts to minimize the effects of these exposures through a combination of natural hedges and the use of derivative financial instruments. The Company has policies approved by the Board of Directors that establish the parameters for the allowable types of derivative instruments to be used, the maximum allowable contract periods, aggregate dollar limitations and other hedging guidelines. The Company will only secure a derivative if there is an identifiable underlying exposure that is not otherwise covered by a natural hedge. In general, derivatives will be held until maturity. The following table summarizes the fair value of the Company's outstanding derivatives and debt as of December 31, 2005 and 2004.

Asset/(liability) (Dollars in thousands)	**December 31, 2005** Notional Amount	Carrying Amount	December 31, 2004 Notional Amount	Carrying Amount
Foreign currency contracts				
Forward contracts				
Yen	**$ 7,720**	**$ 579**	$ 16,622	$ (765)
Euro	**9,473**	**658**	27,842	(2,113)
Sterling	**1,803**	**116**	5,189	(228)
Total	**$ 18,996**	**$ 1,353**	$ 49,653	$ (3,106)
Options				
Yen	**$ 1,743**	**$ 17**	$ 3,366	$ (18)
Euro	**11,381**	**106**	9,200	(761)
Total	**$ 13,124**	**$ 123**	$ 12,566	$ (779)
Copper price contracts				
Floating to fixed swaps	**$ 6,983**	**$ 1,420**	$ –	$ –
Floating to fixed options	**1,776**	**493**	–	–
Total	**$ 8,759**	**$ 1,913**	$ –	$ –
Interest rate exchange contracts				
Floating to fixed	**$ 36,959**	**$ (1,241)**	$ 52,202	$ (3,256)
Short- and long-term debt	**$ –**	**$ (57,186)**	$ –	$ (72,450)

The fair values equal the carrying amounts in the Consolidated Balance Sheets as of December 31, 2005 and 2004. Statement No. 107 defines fair value as the amount at which an instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values of the foreign currency, copper price and interest rate derivative contracts were calculated by third parties on behalf of the Company using the applicable market rates at December 31, 2005 and December 31, 2004. The fair value of the Company's debt was estimated using a discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

The Company records derivatives in its financial statements in accordance with Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which amended Statement No. 133. Each of the Company's foreign currency, copper price and interest rate derivative contracts were designated as cash flow hedges at inception as defined under these statements. Statement No. 133 requires the fair value of outstanding derivative instruments to be recorded on the balance sheet. Accordingly, derivative fair values were included in the balance sheet line items as follows:

Debit/(credit) balance (Dollars in thousands)	December 31, **2005**	2004
Prepaid expenses	**$ 3,389**	$ –
Other liabilities and accrued items	**(414)**	(4,216)
Other long-term liabilities	**(827)**	(2,925)
Total	**$ 2,148**	$ (7,141)

The balance sheet classification of the fair values is dependent upon the Company's rights and obligations under each derivative and the remaining term to maturity. Changes in fair values of derivatives are recorded in income or other comprehensive income (loss) (hereafter "OCI") as appropriate

under Statement No. 133 guidelines. A reconciliation of the changes in fair values and other derivative activity recorded in OCI for 2005 and 2004 is as follows:

(Dollars in thousands)	2005	2004
Balance in other comprehensive income (loss) at January 1	$ (4,025)	$ (3,216)
Changes in fair values and other current period activity	7,555	(3,336)
Matured derivatives – charged to expense	631	2,527
Derivative ineffectiveness – (credited) to expense	(180)	–
Balance in other comprehensive income (loss) at December 31	$ 3,981	$ (4,025)

All of the outstanding foreign currency and copper price hedge contracts qualified for hedge accounting treatment as of December 31, 2005. The outstanding interest rate swap as of December 31, 2005 does not qualify for hedge accounting as the designated hedged item, the variable rate portion of an operating lease, was terminated as part of the refinancing in December 2003. The associated $4.6 million cumulative loss previously recorded in OCI was charged to expense on the Consolidated Statement of Income at the time of the refinancing. Changes in the swap's fair value subsequent to the refinancing are charged to income or expense in the current period.

Hedge ineffectiveness, including amounts charged from OCI and other adjustments to the fair values of derivatives that did not flow through OCI, was income of $0.8 million in 2005 and an expense of $0.4 million in 2004 and $5.1 million in 2003 and was included in other-net expense on the Consolidated Statements of Income. Assuming no change from the applicable December 31, 2005 exchange rates or copper prices, the balance in OCI as of December 31, 2005 will be reversed to income in 2006 as the related hedged items are all scheduled to mature in 2006.

The Company hedged a portion of its net investment in its Japanese subsidiary using yen-denominated debt until this loan was repaid in December 2003. A net loss of $0.6 million associated with translating this debt into dollars was recorded in the cumulative translation adjustment as of December 31, 2005 and 2004. This balance will remain in cumulative translation adjustment and will only be charged to income should the Company ever liquidate its investment.

Foreign Exchange Hedge Contracts

The Company uses forward and option contracts to hedge anticipated foreign currency transactions, primarily foreign sales. The purpose of the program is to protect against the reduction in value of the foreign currency transactions from adverse exchange rate movements. Should the dollar strengthen significantly, the decrease in the translated value of the foreign currency transactions should be partially offset by gains on the hedge contracts. Depending upon the method used, the contract may limit the benefits from a weakening of the dollar. The Company's policy limits contracts to maturities of two years or less from the date of issuance. The outstanding contracts as of year-end 2005 all have maturities of one year or less while the outstanding contracts as of year-end 2004 had maturities ranging up to 18 months. Realized gains and losses on foreign exchange contracts are recorded in other-net on the Consolidated Statements of Income. The total exchange loss, which includes realized and unrealized losses, was $1.1 million in 2005, $1.8 million in 2004 and $0.9 million in 2003.

Copper Price Contracts

The Company purchases and manufactures products containing copper. Purchases are exposed to price fluctuations in the copper market. However, for a significant portion of its copper-based products, the Company will adjust its selling prices to customers to reflect the change in its copper purchase price. This program is designed to be profit neutral; i.e., any changes in copper prices, either up or down, will be directly passed on to the customer.

The Company uses copper price contracts (i.e., swaps and options) to hedge the copper purchase price for those volumes where price fluctuations cannot be passed on to the customer. Under the swaps, which are purchased from financial institutions, the Company makes or receives payments based on a difference between a fixed price (as specified in each individual contract) and the market price of copper. These payments will offset the change in prices of the underlying purchases and effectively fix the price of copper at the swap rate for the contracted volume. Under the options, the Company will receive a payment if the market price exceeds the contract strike price at the maturity date. If the market price is below the strike price, the contract will expire worthless and the Company will not have to make a payment to the financial institution. The Company's policy limits commodity hedge contracts, including copper price contracts, to maturities of 27 months or less from the original date of issuance. Realized gains and losses on copper hedge contracts are deferred into OCI and then amortized to cost of sales on the Consolidated Statements of Income over the inventory turnover period.

Interest Rate Hedge Contracts

The Company attempts to minimize its exposure to interest rate variations by using combinations of fixed and variable rate instruments with varying lengths of maturities. Depending upon the interest rate yield curve, credit spreads, projected borrowing requirements and rates, cash flow considerations and other factors, the Company may elect to secure interest rate swaps, caps, collars, options or other related derivative instruments to hedge portions of its interest rate exposure. Both fixed-to-variable and variable-to-fixed interest rate instruments may be used.

In December 2003, the Company entered into a five-year variable-to-fixed interest rate swap with a $10.0 million notional value designated as a hedge of a portion of its variable rate subordinated debt. The Company terminated this swap concurrent with the prepayment of the associated debt in December 2005. The termination resulted in a gain of $0.2 million, which was included in the hedge ineffectiveness total stated above.

While the remaining swap does not qualify for hedge accounting, cash payments made or received under this swap will tend to offset changes in the interest payments made on portions of its outstanding variable rate debt not otherwise hedged. The swap matures in 2008 and its notional value declines over time. Gains and losses on this swap were charged to cost of sales over its life until the underlying hedged item was terminated in December 2003. Gains and losses from that point forward are recorded as derivative ineffectiveness within other-net on the Consolidated Statements of Income.

NOTE I – Pensions and Other Post-retirement Benefits

PART I: DOMESTIC PLANS

The obligation and funded status of the Company's domestic pension and other post-retirement benefit plans are shown below. The Pension Benefits column includes the domestic defined benefit pension plan and unfunded supplemental retirement plan. The retiree medical and life insurance plan is shown in the Other Benefits column.

	Pension Benefits		Other Benefits	
	2005	2004	**2005**	2004
(Dollars in thousands)				
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 122,520**	$ 110,469	**$ 42,890**	$ 45,449
Service cost	**4,747**	4,242	**299**	280
Interest cost	**6,497**	6,900	**2,243**	2,572
Amendments	**(14,741)**	119	**697**	–
Actuarial (gain) loss	**10,749**	6,234	**(8,710)**	(2,202)
Benefit payments	**(5,580)**	(5,444)	**(2,963)**	(3,209)
Benefit obligation at end of year	**124,192**	122,520	**34,456**	42,890
Change in plan assets				
Fair value of plan assets at beginning of year	**89,383**	85,803	**–**	–
Actual return on plan assets	**5,865**	8,955	**–**	–
Employer contributions	**5,088**	69	**2,963**	3,209
Benefit payments	**(5,580)**	(5,444)	**(2,963)**	(3,209)
Fair value of plan assets at end of year	**94,756**	89,383	**–**	–
Funded status	**(29,436)**	(33,137)	**(34,456)**	(42,890)
Unrecognized net actuarial (gain) loss	**45,551**	33,189	**(341)**	8,369
Unrecognized prior service cost (benefit)	**(9,080)**	4,991	**(15)**	(797)
Net amount recognized	**$ 7,035**	$ 5,043	**$ (34,812)**	$ (35,318)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Accrued benefit liability	**$ (28,415)**	$ (15,715)	**$ (34,812)**	$ (35,318)
Intangible asset	**–**	4,983	**–**	–
Accumulated other comprehensive loss	**35,450**	15,775	**–**	–
Net amount recognized	**$ 7,035**	$ 5,043	**$ (34,812)**	$ (35,318)
Additional Information				
Increase in minimum liability included in other comprehensive loss	**$ 19,675**	$ 3,179		
Accumulated benefit obligation for all domestic pension plans	**$ 123,077**	$ 104,949		

(Dollars in thousands)	Pension Benefits			Other Benefits		
	2005	2004	2003	**2005**	2004	2003
Components of net periodic benefit cost						
Service cost	**$ 4,747**	$ 4,242	$ 4,116	**$ 299**	$ 280	$ 274
Interest cost	**6,497**	6,900	6,668	**2,243**	2,572	2,818
Expected return on plan assets	**(8,754)**	(9,069)	(9,359)	**–**	–	–
Amortization of prior service cost (benefit)	**(670)**	646	647	**(85)**	(112)	(112)
Amortization of initial net (asset) obligation	**–**	(1)	(361)	**–**	–	–
Recognized net actuarial (gain) loss	**1,276**	(10)	(26)	**–**	255	333
Settlement (gain)	**–**	–	(48)	**–**	–	–
Net periodic benefit cost	**$ 3,096**	$ 2,708	$ 1,637	**$ 2,457**	$ 2,995	$ 3,313

	Pension Benefits			Other Benefits		
	2005	2004	2003	**2005**	2004	2003
Assumptions						
Weighted-average assumptions used to determine benefit obligations at fiscal year end						
Discount rate	**5.750%**	6.125%		**5.750%**	6.125%	
Rate of compensation increase	**4.500%**	3.500%		**4.500%**	3.500%	
Weighted-average assumptions used to determine net cost for the fiscal year						
Discount rate	**6.125%**	6.375%	6.750%	**6.125%**	6.375%	6.750%
Expected long-term return on plan assets	**8.750%**	9.000%	9.000%	**N/A**	N/A	N/A
Rate of compensation increase	**3.500%**	2.750%	2.000%	**3.500%**	2.750%	2.000%

The Company uses a December 31 measurement date for the above plans. The Company amended the defined benefit plan during 2005. The amendment, among other items, revised the benefit payout formula for the majority of the plan participants. The plan amendment was deemed to be a significant event and the plan was remeasured accordingly during 2005. The discount rate assumption was changed at the time of the remeasurement. Therefore, a discount rate of 6.125% was used for part of the year and 5.875% was used for the remainder of the year to determine the net cost in 2005. The expected long-term rate of return on plan asset and the rate of compensation increase assumptions did not change for the remeasurement.

Effective January 1, 2006, the Company revised the expected long-term rate of return assumption used in calculating the annual expense for its domestic pension plan in accordance with Statement No. 87, "Employers' Accounting for Pensions". The assumed expected long-term rate of return was decreased to 8.50% from 8.75%, with the impact being accounted for as a change in estimate. Effective January 1, 2005, the Company revised the expected long-term rate of return to 8.75% from 9.0%, with the impact being accounted for as a change in estimate.

Management establishes the expected long-term rate of return assumption by reviewing its historical trends and analyzing the current and projected market conditions in relation to the plan's asset allocation and risk management objectives. Management consults with outside investment advisors and actuaries when establishing the rate and reviews their assumptions with the Retirement Plan Review Committee of the Board of Directors. The actual return on plan assets was 6.5% in 2005, 10.6% in 2004 and 19.7% in 2003. The 10-year average annualized return was 7.8% as of year-end 2005 and 9.0% as of year-end 2004. Management believes that the 8.50% expected long-term rate of return assumption is achievable and reasonable given current market conditions and forecasts, asset allocations, investment policies and investment risk objectives.

The rate of compensation increase assumption was changed to a flat 4.5% as of January 1, 2006. Previously, a graded assumption was used, with the rate of increase beginning at 2% for the 2003 fiscal year and increasing 0.75% per year until it would have reached 5% for the 2007 fiscal year and later.

	2005	2004
Assumed health care trend rates at fiscal year end		
Health care trend rate assumed for next year	**9.00%**	10.00%
Rate that the trend rate gradually declines to (ultimate trend rate)	**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate	**2010**	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-point Increase		1-Percentage-point Decrease	
	2005	2004	2005	2004
(Dollars in thousands)				
Effect on total of service and interest cost components	**$ 84**	$ 135	**$ (74)**	$ (119)
Effect on post-retirement benefit obligation	**1,034**	1,856	**(907)**	(1,644)

Plan Assets

The Company's domestic defined benefit pension plan weighted-average asset allocation at fiscal year-end 2005 and 2004 and target allocation are as follows:

	Target Allocation	Percentage of Pension Plan Assets at Fiscal Year End 2005	2004
Asset Category			
Equity securities	35-75%	**61%**	67%
Debt securities	10-25%	**24%**	18%
Real estate	0-5%	**8%**	7%
Other	0-15%	**7%**	8%
Total	100%	**100%**	100%

The Company's pension plan investment strategy, as approved by the Retirement Plan Review Committee, is to employ an allocation of investments that will generate returns equal to or better than the projected long-term growth of pension liabilities so that the plan will be self-funding. The return objective is to earn a real return (i.e., the actual return less inflation) of 6.0% as measured on a 10-year moving-average basis. The allocation of investments is designed to maximize the advantages of diversification while mitigating the risk to achieve the return objective. Risk is defined as the annual variability in value and is measured in terms of the standard deviation of investment return. Under the Company's investment policies, allowable investments include domestic equities, international equities, fixed income securities, alternative securities (which include real estate, private venture capital investments and hedge funds) and tactical allocation (a mix of equities and bonds). Ranges, in terms of a percentage of the total assets, are established for each allowable class of security. Derivatives may be used to hedge an existing security or as a risk reduction strategy. Management reviews the asset allocation on an annual or more frequent basis and makes revisions as deemed necessary.

None of the plan assets noted above are invested in the Company's common stock.

Cash Flows

Employer Contributions

The Company expects to contribute $1.9 million to its domestic pension plans and $2.7 million to its other benefit plans in 2006.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

During Fiscal Years (Dollars in thousands)	Pension Benefits	Other Benefits
2006	$ 4,829	$ 2,727
2007	5,051	2,747
2008	5,212	2,760
2009	5,568	2,790
2010	6,024	2,788
2011 through 2015	37,830	13,171

PART II: FOREIGN PLAN

The obligation and funded status of the Company's German defined benefit pension plan is as follows:

	Pension Benefits	
	2005	2004
(Dollars in thousands)		
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 3,673**	$ 2,617
Service cost	**131**	104
Interest cost	**162**	142
Actuarial loss	**1,764**	521
Benefit payments	**(34)**	(15)
Translation changes	**(564)**	304
Benefit obligation at end of year	**5,132**	3,673
Funded status	**(5,132)**	(3,673)
Unrecognized prior service cost	**2,430**	782
Net amount recognized	**$ (2,702)**	$ (2,891)
Amounts recognized in the Consolidated Balance Sheets consist of:		
Accrued benefit liability	**$ (4,082)**	$ (2,891)
Accumulated other comprehensive loss	**1,380**	–
Net amount recognized	**$ (2,702)**	$ (2,891)
Additional Information		
Increase in minimum liability included in other comprehensive loss	**$ 1,380**	$ –
Accumulated benefit obligation for the foreign pension plan	**$ 4,082**	$ 2,891

(Dollars in thousands)	2005	2004	2003
Components of net periodic benefit cost			
Service cost	**$ 131**	$ 104	$ 85
Interest cost	**162**	142	121
Recognized net actuarial loss	**26**	2	–
Net periodic benefit cost	**$ 319**	$ 248	$ 206

Assumptions	2005	2004	2003
Weighted-average assumptions used to determine benefit obligations at fiscal year end			
Discount rate	**4.00%**	5.00%	
Rate of compensation increase	**3.00%**	3.00%	
Weighted-average assumptions used to determine net cost for the fiscal year			
Discount rate	**5.00%**	5.50%	5.75%
Rate of compensation increase	**3.00%**	3.00%	2.50%

The Company uses a December 31 measurement date for the German defined benefit plan. The German plan does not have any assets, as the plan is unfunded. The discount rate assumption for the German plan is determined separately from the U.S. plan assumptions. The rate of compensation increase is also dependent upon assumptions for that operation separate from the U.S.

Estimated Future Benefit Payments

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the German plan:

During Fiscal Years (Dollars in thousands)	
2006	$ 41
2007	45
2008	57
2009	75
2010	88
2011 through 2015	802

PART III: OTHER BENEFIT PLANS

The Company also has accrued unfunded retirement arrangements for certain directors. The projected benefit obligation was $0.1 million at December 31, 2005 and $0.1 million at December 31, 2004. A corresponding accumulated benefit obligation of equal amounts has been recognized as a liability and is included in retirement and post-employment benefits as of the respective year ends. Certain foreign subsidiaries have funded and accrued unfunded pension and other post-employment arrangements. The liability for these plans was $2.6 million at December 31, 2005 and $2.4 million at December 31, 2004 and was included in retirement and post-employment benefits on the Consolidated Balance Sheets.

The Company also sponsors a defined contribution plan available to substantially all U.S. employees. Company contributions to the plan are based on matching a percentage of employee savings up to a specified savings level. The Company's annual contributions were $2.3 million in 2005, $1.0 million in 2004 and $1.0 million in 2003. The Company doubled its matching percentage effective January 1, 2005.

NOTE J – Contingencies and Commitments

CBD Claims

The Company is a defendant in proceedings in various state and federal courts by plaintiffs alleging that they have contracted chronic beryllium disease (CBD) or related ailments as a result of exposure to beryllium. Plaintiffs in CBD cases seek recovery under theories of negligence and various other legal theories and seek compensatory and punitive damages, in many cases of an unspecified sum. Spouses, if any, claim loss of consortium. Additional CBD claims may arise.

Management believes the Company has substantial defenses in these cases and intends to contest the suits vigorously. Employee cases, in which plaintiffs have a high burden of proof, have historically involved relatively small losses to the Company. Third-party plaintiffs (typically employees of customers) face a lower burden of proof than do the Company's employees, but these cases are generally covered by varying levels of insurance.

Although it is not possible to predict the outcome of the litigation pending against the Company and its subsidiaries, the Company provides for costs related to these matters when a loss is probable and the amount is reasonably estimable. Litigation is subject to many uncertainties, and it is possible that some of the actions could be decided unfavorably in amounts exceeding the Company's reserves. An unfavorable outcome or settlement of a pending CBD case or additional adverse media coverage could encourage the commencement of additional similar litigation. The Company is unable to estimate its potential exposure to unasserted claims. The Company recorded a reserve for CBD litigation of $2.1 million at December 31, 2005 and $1.9 million at December 31, 2004. The reserve is included in other long-term liabilities on the Consolidated Balance Sheets. An asset of $2.2 million was recorded in other assets on the Consolidated Balance Sheets at December 31, 2005 and $2.3 million at December 31, 2004 for recoveries from insurance carriers for outstanding insured claims and for prior settlements initially paid directly by the Company to the plaintiff on insured claims. An additional $0.4 million was reserved at December 31, 2005 and 2004 for insolvencies related to claims still outstanding as well as for claims for which partial payments have been received.

While the Company is unable to predict the outcome of the current or future CBD proceedings, based upon currently known facts and assuming collectibility of insurance, the Company does not believe that resolution of these proceedings will have a material adverse effect on the financial condition or cash flow of the Company. However, the Company's results of operations could be materially affected by unfavorable results in one or more of these cases.

Environmental Proceedings

The Company has an active program for environmental compliance that includes the identification of environmental projects and estimating their impact on the Company's financial performance and available resources. Environmental expenditures that relate to current operations, such as wastewater treatment and control of airborne emissions, are either expensed or capitalized as appropriate. The Company records reserves for the probable costs for environmental remediation projects. The Company's environmental engineers perform routine ongoing analyses of the remediation sites and will use outside consultants to assist in their analyses from time to time. Accruals are based upon their analyses and are established at either the best estimate or, absent a best estimate, at the low end of the estimated range of costs. The accruals are revised for the results of ongoing studies and for differences between actual and projected costs. The accruals are also affected by rulings and negotiations with regulatory agencies. The timing of payments often lags the accrual, as environmental projects typically require a number of years to complete. The undiscounted reserve balances at December 31, 2005 and 2004 were as follows:

(Dollars in thousands)	December 31, 2005	2004
Current	**$ 656**	$ 1,222
Long-term	**4,246**	4,473
Total reserve	**$ 4,902**	$ 5,695

These reserves cover existing or currently foreseen projects. It is possible that additional environmental losses may occur beyond the current reserve, the extent of which cannot be estimated.

In 2005, the Company obtained updated detailed quotes on various remediation projects that estimated a lower remediation cost than previously reserved. In addition, the Company received notification that further remediation efforts on a particular project at the Elmore facility were no longer required. As a result of these and other minor factors, the Company reversed $0.5 million of the reserve to income in 2005. Payments against the reserve totaled $0.3 million in 2005. In 2004, the Company sold property that was subject to a Voluntary Action Plan. This property had been formerly used as a manufacturing site by one of the Company's subsidiaries. Under the terms of the sale, the buyer assumed the environmental remediation responsibilities and agreed to indemnify the Company against any environmental claims arising from this property. This transaction enabled the Company to reverse a previously recorded environmental remediation reserve associated with this property of $1.0 million to income. The reserve was also reduced in 2004 as a result of payments on various projects that totaled $0.2 million. The environmental reserve was reduced by $0.6 million in 2003 as a result of revised estimates of the required remediation work and related costs, primarily for RCRA projects, SWMU closure and other projects at the Elmore facility.

Long-term Obligation

The Company has a long-term supply arrangement with Ulba/Kazatomprom of the Republic of Kazakhstan and their marketing representative, Nukem, Inc. of Connecticut. The agreement was signed in 2000 and amended from time to time. An amendment in 2003 reduced the previous purchase commitments for copper beryllium master alloy, added commitments to purchase beryllium vacuum cast billets and extended the contract period to 2012. All materials under the arrangement are sourced from Ulba/Kazatomprom. The annual base purchase commitments total approximately $5.8 million in 2006 and 2007. A new price will be renegotiated for the years 2008 through 2012. If a new price cannot be agreed to by December 31, 2007, then the material purchases will terminate with the 2008 delivery volumes. The contract allows for the Company to purchase additional quantities of copper beryllium master alloy up to an annual maximum of 150,000 pounds of beryllium contained in the master alloy. The purchase of beryllium vacuum cast billets can be plus or minus 10% of the annual base quantity. The contract was amended in 2005 to provide an additional quantity of 120,000 pounds for the years 2005 to 2007 above the existing quantities. Purchases of beryllium-containing materials from Nukem were $7.8 million in 2005, $5.9 million in 2004 and an immaterial amount in 2003.

The Company has agreements to purchase stated quantities of beryl ore, beryllium metal and copper beryllium master alloy from the Defense Logistics Agency of the U.S. Government. The agreements expire in 2007. Annual purchase commitments total approximately $4.8 million in 2006 and $5.2 million in 2007. The beryllium component of the contract price is adjusted quarterly from these stated totals based upon fluctuations in the non-seasonally adjusted consumer price index. The Company may elect to take delivery of the materials in advance of the commitment dates. Purchases under these agreements totaled approximately $7.5 million in 2005, $6.6 million in 2004 and $5.9 million in 2003. The purchased material will serve as raw material input for operations within two of the Company's subsidiaries, Brush Wellman Inc. and Brush Resources Inc.

Other

One of the Company's subsidiaries, Williams Advanced Materials Inc. (WAM) is a defendant in a U.S. legal case where the plaintiff is alleging patent infringement by WAM and a small number of WAM's customers. WAM has provided an indemnity agreement to certain of those customers, under which WAM will pay any damages awarded by the court. WAM believes it has numerous and strong defenses applicable to both WAM and the indemnified customers and is contesting this action. WAM earlier filed suit against this plaintiff in the U.S. for wrongful intimidation of its customers and requested that certain of the plaintiff's patents be invalidated. WAM also filed a suit in Australia to revoke a corresponding patent. The Australian court has ruled in WAM's favor while the U.S. action is ongoing. WAM has not made any indemnification payments on behalf of any of its

customers as of December 31, 2005, nor have they recorded a reserve for losses under these indemnification agreements as of December 31, 2005. WAM does not believe a range of potential losses, if any, can be estimated at the present time.

The Company is subject to various other legal or other proceedings that relate to the ordinary course of its business. The Company believes that the resolution of these proceedings, individually or in the aggregate, will not have a material adverse impact upon the Company's consolidated financial statements.

The Company has outstanding letters of credit totaling $11.8 million related to workers' compensation, consigned precious metal arrangements and environmental remediation issues that expire in 2006.

NOTE K – Capital Stock

During the third quarter of 2004, the Company completed a common stock offering of 2,050,000 newly issued shares and 115,000 secondary shares of common stock sold by selling shareholders. In addition, pursuant to a partial exercise of an over allotment option by the underwriters, an additional 200,000 primary shares were issued bringing the total of primary shares of common stock issued under the offering to 2,250,000. The net proceeds from the offering after deducting fees was $38.7 million. The majority of proceeds from the offering was used to repay outstanding borrowings under the Company's revolving line of credit and $5.0 million of the proceeds was used to repay a portion of the Company's long-term subordinated debt.

In connection with the Company's refinancing agreement dated December 4, 2003, 115,000 $0.01 common stock warrants were issued to the lenders as part of their fee. Holders of the warrants were entitled to exercise them for an equal number of shares of Company common stock. The warrants were recorded as a component of shareholders' equity at their fair value at the time of issuance. The holders of the warrants exercised them in the third quarter 2004 and sold their shares concurrent with the Company's new share offering.

The Company has 5 million shares of Serial Preferred Stock authorized (no par value), none of which has been issued. Certain terms of the Serial Preferred Stock, including dividends, redemption and conversion, will be determined by the Board of Directors prior to issuance.

On January 27, 1998 the Company's Board of Directors adopted a new share purchase rights plan and declared a dividend distribution of one right for each share of Common Stock outstanding as of the close of business on February 9, 1998. The plan allows for new shares issued after February 9, 1998 to receive one right subject to certain limitations and exceptions. Each right entitles the shareholder to buy one one-hundredth of a share of Serial Preferred Stock, Series A, at an initial exercise price of $110. A total of 450,000 unissued shares of Serial Preferred Stock will be designated as Series A Preferred Stock. Each share of Series A Preferred Stock will be entitled to participate in dividends on an equivalent basis with one hundred shares of common stock and will be entitled to one vote. The rights will not be exercisable and will not be evidenced by separate right certificates until a specified time after any person or group acquires beneficial ownership of 20% or more (or announces a tender offer for 20% or more) of common stock. The rights expire on January 27, 2008, and can be redeemed for 1 cent per right under certain circumstances.

The amended 1995 Stock Incentive Plan authorizes the granting of five categories of incentive awards: option rights, performance restricted shares, performance shares, performance units and restricted shares. As of December 31, 2005, no performance units had been granted.

Option rights under this plan entitled the optionee to purchase common shares at a price equal to or greater than market value on the date of grant. Option rights outstanding under the amended 1995 Stock Incentive Plan and previous plans generally became exercisable over a four-year period and expired 10 years from the date of the grant. In 1995, the Company's right to grant options on a total of 228,565 shares (under the Company's 1979, 1984 and 1989 stock option plans) was terminated upon shareholder approval of the amended 1995 Stock Incentive Plan upon terms providing that no further stock awards would be made under the Company's 1979, 1984 and 1989 stock option plans except to the extent that shares become available for grant under these plans by reason of termination of options previously granted. The amended 1995 Stock Incentive Plan expired in May 2005. Currently, there are stock options outstanding under the above plans.

The 1990 Stock Option Plan for Non-employee Directors (the "1990 Plan") was terminated effective May 7, 1998. The 1997 Stock Incentive Plan for Non-employee Directors replaced the 1990 Plan and provided for a one-time grant of 5,000 options to up to six new non-employee directors who have not yet received options under the 1990 Plan at an option price equal to the fair market value of the shares at the date of the grant. Options are non-qualified and become exercisable six months after the date of grant. The options generally expire 10 years after the date they were granted. The 1997 Stock Incentive Plan for Non-employee Directors was amended on May 1, 2001. The amendment added an additional 100,000 shares to the Plan and established a grant of up to 2,000 options to each Director annually.

Stock option and restricted share award activities are summarized in the following table:

	2005		2004		2003	
	Shares	Weighted-average Exercise Price	Shares	Weighted-average Exercise Price	Shares	Weighted-average Exercise Price
Stock options						
Outstanding at beginning of year	**1,467,710**	**$ 16.19**	1,474,943	$ 15.78	1,394,688	$ 17.82
Granted	**174,200**	**17.12**	242,650	17.01	262,800	5.62
Exercised	**(29,955)**	**12.43**	(228,298)	14.19	(1,900)	12.89
Cancelled	**(103,695)**	**18.19**	(21,585)	18.38	(180,645)	16.76
Outstanding at end of year	**1,508,260**	**16.24**	1,467,710	16.19	1,474,943	15.78
Exercisable at end of year	**1,387,560**	**16.59**	1,236,930	16.75	1,231,103	16.78
Restricted awards						
Awarded and restricted at beginning of year	**38,550**		46,950		77,845	
Awarded during the year	–		13,700		–	
Vested	**(25,250)**		(14,100)		(26,845)	
Forfeited	–		(8,000)		(4,050)	
Awarded and restricted at end of year	**13,300**		38,550		46,950	

The restricted awards are recorded as a component of shareholders' equity at their fair value as of the grant date. The fair value is subsequently amortized as deferred compensation expense over the vesting period. Amounts recorded against selling, general and administrative expense on the Consolidated Statements of Income totaled $0.1 million in 2005, $0.1 million in 2004 and $0.3 million in 2003.

The following table provides additional information about stock options outstanding as of December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Option Prices	Number Outstanding	Weighted-average Remaining Contract Life	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
$ 5.55 - $ 8.10	213,820	7.15	$ 5.64	169,420	$ 5.66
$12.15 - $15.06	320,540	5.44	13.16	303,400	13.22
$15.97 - $18.13	625,500	6.34	17.12	566,340	17.13
$20.64 - $23.78	219,350	4.96	22.32	219,350	22.32
$26.44 - $26.72	129,050	2.34	26.72	129,050	26.72
	1,508,260	5.68	$ 16.24	1,387,560	$ 16.59

The weighted-average remaining contractual life of options outstanding at December 31, 2004 and 2003 is 5.93 years and 5.99 years, respectively. The number of shares available for future grants as of December 31, 2005, 2004 and 2003 was 95,460 shares, 245,566 shares and 472,331 shares, respectively.

NOTE L – Other Comprehensive Income

The following table summarizes the cumulative net gain/(loss) by component within other comprehensive income as of December 31, 2005, 2004 and 2003:

(Dollars in thousands)	December 31, 2005	2004	2003
Foreign currency translation adjustment	$ (2,188)	$ (133)	$ (982)
Change in the fair value of derivative financial instruments	3,981	(4,025)	(3,216)
Minimum pension liability	(36,830)	(15,775)	(12,596)
Total	$ (35,037)	$ (19,933)	$ (16,794)

NOTE M – Segment Reporting and Geographic Information

Selected financial data by business segment for 2005, 2004 and 2003 is as follows:

(Dollars in thousands)	Metal Systems	Micro-electronics	Total Segments	All Other	Total
2005					
Revenues from external customers	**$ 306,320**	**$ 234,947**	**$ 541,267**	**$ –**	**$ 541,267**
Intersegment revenues	**2,789**	**1,638**	**4,427**	**–**	**4,427**
Depreciation, depletion and amortization	**14,970**	**4,050**	**19,020**	**2,655**	**21,675**
Profit (loss) before interest and taxes	**6,258**	**18,958**	**25,216**	**(5,707)**	**19,509**
Assets	**301,532**	**110,100**	**411,632**	**(8,930)**	**402,702**
Expenditures for long-lived assets	**8,590**	**4,742**	**13,332**	**443**	**13,775**
2004					
Revenues from external customers	$ 300,711	$ 195,565	$ 496,276	$ –	$ 496,276
Intersegment revenues	3,513	1,149	4,662	–	4,662
Depreciation, depletion and amortization	16,100	3,870	19,970	2,391	22,361
Profit before interest and taxes	4,463	18,540	23,003	2,031	25,034
Assets	301,740	76,776	378,516	35,665	414,181
Expenditures for long-lived assets	5,830	2,673	8,503	647	9,150
2003					
Revenues from external customers	$ 243,723	$ 157,323	$ 401,046	$ –	$ 401,046
Intersegment revenues	2,414	1,119	3,533	–	3,533
Depreciation, depletion and amortization	13,710	4,020	17,730	2,605	20,335
Profit (loss) before interest and taxes	(16,381)	12,618	(3,763)	(5,181)	(8,944)
Assets	293,933	74,137	368,070	3,546	371,616
Expenditures for long-lived assets	3,320	2,930	6,250	69	6,319

Segments are evaluated using earnings before interest and taxes. Intersegment revenues are eliminated in consolidation. The revenues from external customer totals are presented net of the intersegment revenues.

Effective January 1, 2005, the operating results of Brush Resources Inc. are included as part of the Metal Systems Group. Previously, the operating results of Brush Resources were included as part of All Other in the segment disclosures. Brush Resources sells beryllium hydroxide, produced through its Utah operations, to outside customers and to businesses within the Metal Systems Group. This change is more reflective of how the Company's businesses are evaluated. The 2004 and 2003 amounts presented have been reclassified to reflect this change.

The "All Other" column includes the operating results of BEM Services, Inc., a wholly owned subsidiary of the Company, as well as the parent company's and other corporate expenses. BEM Services charges a management fee for the services provided to the other businesses within the Company on a cost-plus basis. Inventories for Metal Systems and Microelectronics are shown at their FIFO values with the LIFO reserve included in the All Other column. Assets shown in All Other include cash, computer hardware and software and capitalized interest. The change in All Other assets from December 31, 2004 to December 31, 2005 was primarily due to a $39.0 million decline in cash and a $6.6 million increase in the LIFO reserve. The All Other assets were a net credit balance as of December 31, 2005 as a result of the LIFO reserve being larger than the debit balances of the other items.

The Company's sales from U.S. operations to external customers, including exports, were $409.3 million in 2005, $376.5 million in 2004, and $311.5 million in 2003. Revenues attributed to countries based upon the location of customers and long-lived assets deployed by the Company by country are as follows:

(Dollars in thousands)	2005	2004	2003
Revenues			
United States	**$ 362,160**	$ 332,193	$ 276,668
All other	**179,107**	164,083	124,378
Total	**$ 541,267**	$ 496,276	$ 401,046
Long-lived Assets			
United States	**$ 170,029**	$ 171,188	$ 185,168
All other	**7,033**	6,431	5,678
Total	**$ 177,062**	$ 177,619	$ 190,846

No individual country, other than the United States, or customer accounted for 10% or more of the Company's revenues for the years presented. Revenues from outside the U.S. are primarily from Europe and Asia.

NOTE N – Interest

Interest expense associated with active construction and mine development projects is capitalized and amortized over the future useful lives of the related assets. The following chart summarizes the interest incurred, capitalized and paid, as well as the amortization of capitalized interest for 2005, 2004 and 2003.

(Dollars in thousands)	2005	2004	2003
Interest incurred	**$ 6,631**	$ 8,553	$ 3,665
Less capitalized interest	**259**	176	(86)
Total expense	**$ 6,372**	$ 8,377	$ 3,751
Interest paid	**$ 7,345**	$ 6,103	$ 2,558
Amortization of capitalized interest included in cost of sales	**$ 587**	$ 593	$ 623

The difference in expense among 2005, 2004 and 2003 was due primarily to the changes in the level of outstanding debt. Amortization of deferred financing costs within interest expense was $1.1 million in 2005, $1.5 million in 2004 and $0.4 million in 2003.

In 1986, the Company purchased company-owned life insurance policies insuring the lives of certain United States employees. The net contract (income) expense, including interest expense recorded in selling, general and administrative, was ($0.7) million in 2004 and $1.4 million in 2003. The related interest expense was $0.3 million in 2004 and $1.3 million in 2003. There was no contract (income) expense or related interest expense in 2005 as the program was terminated and the Company received back the net surrender value in 2004. The contracts had been recorded at cash surrender value, net of policy loans, in other assets on the Consolidated Balance Sheet.

NOTE O – Income Taxes

Income (loss) before income taxes and income taxes (benefit) are comprised of the following components, respectively:

(Dollars in thousands)	2005	2004	2003
Income (loss) before income taxes:			
Domestic	**$ 10,866**	$ 14,030	$ (14,721)
Foreign	**2,271**	2,627	2,071
Total before income taxes	**$ 13,137**	$ 16,657	$ (12,650)
Income taxes (benefit):			
Current income taxes:			
Domestic	**$ 720**	$ 528	$ 158
Foreign	**443**	821	697
Total current	**1,163**	1,349	855
Deferred income taxes:			
Domestic	**$ 2,213**	$ 9,280	$ (5,291)
Foreign	**66**	(208)	(279)
Valuation allowance	**(8,130)**	(9,280)	5,291
Total deferred	**(5,851)**	(208)	(279)
Total income taxes (benefit)	**$ (4,688)**	$ 1,141	$ 576

The reconciliation of the federal statutory and effective income tax rates follows:

	2005	2004	2003
Federal statutory rate (benefit)	**34.0%**	34.0%	(34.0)%
State and local income taxes, net of federal tax effect	**3.0**	0.7	0.9
Effect of excess of percentage depletion over cost depletion	**(6.1)**	(4.7)	(7.6)
Company-owned life insurance	**(0.1)**	34.1	3.6
Officers' compensation	**1.5**	3.1	0.7
Stock warrants	**0.8**	0.2	–
Taxes on foreign source income	**(8.4)**	(7.2)	(3.7)
Valuation allowance	**(61.9)**	(55.7)	41.8
Other items	**1.5**	2.4	2.8
Effective tax rate (benefit)	**(35.7)%**	6.9%	4.5%

In accordance with the provisions of Statement No. 109, "Accounting for Income Taxes," the Company recorded an $8.1 million reversal of valuation allowance reflected as a reduction to tax expense in 2005. This amount is comprised of a $2.2 million current year utilization of net operating losses and a $5.9 million reversal of the valuation allowance associated with the Company's determination that it is more likely than not that this portion of the deferred tax asset will be realized.

The Company recorded a $4.5 million increase to the valuation allowance in 2005 as a component of OCI associated with the changes for the minimum pension liability and derivative and hedging activities.

The Company intends to maintain a valuation allowance on certain deferred tax assets until a realization event occurs to support reversal of all or a portion of the allowance.

Included in current domestic income taxes, as shown in the Consolidated Statements of Income, are $0.6 million, $0.2 million, and $0.2 million of state and local income taxes in 2005, 2004 and 2003, respectively.

The Company had domestic and foreign income tax payments (refunds) of $2.1 million, $1.1 million and $(3.3) million in 2005, 2004 and 2003, respectively.

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting bases and the tax bases of assets and liabilities. Deferred tax assets and (liabilities) recorded in the Consolidated Balance Sheets consist of the following at December 31, 2005 and 2004:

(Dollars in thousands)	2005	2004
Post-retirement benefits other than pensions	$ 11,827	$ 12,000
Alternative minimum tax credit	11,094	10,981
Other reserves	2,205	2,591
Environmental reserves	1,662	1,969
Pensions	12,549	4,460
Derivative instruments and hedging activities	–	2,476
Inventory	–	20
Tax credit carryforward	2,092	1,851
Net operating loss carryforward	20,758	23,385
Capitalized interest expense	351	237
	62,538	59,970
Valuation allowance	(19,885)	(23,175)
Total deferred tax assets	42,653	36,795
Depreciation	(33,082)	(33,148)
Inventory	(887)	–
Derivative instruments and hedging activities	(264)	–
Mine development	(1,868)	(1,858)
Miscellaneous	(1,497)	(586)
Total deferred tax liabilities	(37,598)	(35,592)
Net deferred tax asset	$ 5,055	$ 1,203

At December 31, 2005, for income tax purposes, the Company had domestic net operating loss carryforwards of $55.2 million, which are scheduled to expire in calendar years 2022 through 2025. The Company also had foreign net operating loss carryforwards for income tax purposes totaling $6.9 million that do not expire.

At December 31, 2005, the Company had alternative minimum tax loss carryforwards of $20.9 million that do not expire. Utilization of these loss carryforwards is limited, on an annual basis, to 90% of alternative minimum taxable income. This limitation required the Company to record a $0.2 million tax liability in 2005.

At December 31, 2005, the Company had research and experimentation tax credit and foreign tax credit carryforwards of $2.1 million that are scheduled to expire in calendar years 2008 through 2020.

A provision has not been made with respect to $12.2 million of unremitted earnings at December 31, 2005 that have been invested by foreign subsidiaries. It is not practical to estimate the amount of unrecognized deferred tax liability for undistributed foreign earnings.

NOTE P – Earnings Per Share

The following table sets forth the computation of basic and diluted net earnings (loss) per share (E.P.S.):

	2005	2004	2003
Numerator for basic and diluted E.P.S.:			
Net income (loss)	$ 17,825	$ 15,516	$ (13,226)
Denominator:			
Denominator for basic E.P.S.:			
Weighted-average shares outstanding	19,219,099	17,865,053	16,562,864
Effect of dilutive securities:			
Employee stock options	137,051	204,788	–
Special restricted stock	14,598	36,574	–
Warrants	–	57,500	–
Diluted potential common shares	151,649	298,862	–
Denominator for diluted E.P.S.:			
Adjusted weighted-average shares outstanding	19,370,748	18,163,915	16,562,864
Basic E.P.S.	$ 0.93	$ 0.87	$ (0.80)
Diluted E.P.S.	$ 0.92	$ 0.85	$ (0.80)

Under Statement No. 128, "Earnings per Share," no potential common shares shall be included in the computation of any diluted per-share amount when a loss from continuing operations exists. Accordingly, dilutive securities have been excluded from the diluted E.P.S. calculation of 109,052 for 2003.

Options to purchase common stock with exercise prices in excess of the average share price totaling 817,000 at December 31, 2005, 361,475 at December 31, 2004 and 1,217,643 at December 31, 2003 were excluded from the diluted E.P.S. calculations as their effect would have been anti-dilutive.

NOTE Q – Related Party Transactions

The Company had outstanding loans of $0.4 million with six employees, including two executive officers, as of December 31, 2005 and December 31, 2004. The loans were made in the first quarter 2002 pursuant to life insurance agreements between the Company and the employees. The portion of the premiums paid by the Company is treated as a loan from the Company to the employees and the loans are secured by the insurance policies, which are owned by the employees. The agreements require each employee to maintain the insurance policy's cash surrender value in an amount at least equal to the outstanding loan balance. The loans are payable from the insurance proceeds upon the employee's death or at an earlier date due to the occurrence of specified events. The loans bear an interest rate equal to the applicable federal rate. There have been no modifications to the loan terms since the inception of the agreements.

NOTE R – Subsequent Event

In January 2006, Williams Advanced Materials Inc. acquired the stock of CERAC, incorporated for $26.2 million in cash, including advisor fees. CERAC provides physical vapor deposition and specialty inorganic materials for the precision optics, semiconductor and other industries. CERAC employs approximately 120 people at its Milwaukee, Wisconsin facility. Their sales were approximately $20.0 million in 2005. The purchase price included $3.8 million to be held in escrow pending resolution of various matters as detailed in the purchase agreement.

NOTE S – Quarterly Data (Unaudited)

The following tables summarize selected quarterly financial data for the years ended December 31, 2005 and 2004:

	2005				
(Dollars in thousands except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	**$ 130,372**	**$ 134,651**	**$ 135,614**	**$ 140,630**	**$ 541,267**
Gross profit	**28,577**	**29,106**	**25,940**	**26,620**	**110,243**
Percent of sales	**21.9%**	**21.6%**	**19.1%**	**18.9%**	**20.4%**
Net income	**4,286**	**5,530**	**3,908**	**4,101**	**17,825**
Net income per share of common stock:					
Basic	**0.22**	**0.29**	**0.20**	**0.21**	**0.93**
Diluted	**0.22**	**0.29**	**0.20**	**0.21**	**0.92**
Stock price range:					
High	**20.80**	**19.26**	**17.92**	**16.61**	
Low	**16.11**	**13.11**	**14.60**	**14.83**	

	2004				
(Dollars in thousands except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$ 125,862	$ 128,639	$ 125,766	$ 116,009	$ 496,276
Gross profit	29,577	29,441	26,584	25,472	111,074
Percent of sales	23.5%	22.9%	21.1%	22.0%	22.4%
Net income	3,754	6,571	3,431	1,760	15,516
Net income per share of common stock:					
Basic	0.23	0.39	0.18	0.09	0.87
Diluted	0.22	0.38	0.18	0.09	0.85
Stock price range:					
High	21.69	21.70	21.40	22.68	
Low	14.95	15.43	17.43	15.60	

Fourth quarter 2005 results include a $3.8 million pre-tax charge for costs related to the prepayment of subordinated debt and a $5.9 million benefit related to the reversal of a portion of the Company's domestic deferred tax valuation allowance.

SELECTED FINANCIAL DATA

Brush Engineered Materials Inc. and Subsidiaries
(Dollars in thousands except for share data)

	2005	2004	2003	2002	2001
For the year					
Net sales	**$ 541,267**	$ 496,276	$ 401,046	$ 372,829	$ 472,569
Cost of sales	**431,024**	385,202	328,008	324,932	404,574
Gross profit	**110,243**	111,074	73,038	47,897	67,995
Operating profit (loss)	**19,509**	25,034	(8,944)	(22,636)	(14,069)
Interest expense	**6,372**	8,377	3,751	3,219	3,327
Income (loss) from continuing operations					
Before income taxes	**13,137**	16,657	(12,695)	(25,855)	(17,396)
Income taxes (benefit)	**(4,688)**	1,141	576	9,749	(7,122)
Net income (loss)	**17,825**	15,516	(13,226)	(35,604)	(10,274)
Earnings per share of common stock:					
Basic net income (loss)	**0.93**	0.87	(0.80)	(2.15)	(0.62)
Diluted net income (loss)	**0.92**	0.85	(0.80)	(2.15)	(0.62)
Dividends per share of common stock	**–**	–	–	–	0.24
Depreciation and amortization	**22,790**	23,826	20,731	20,640	21,609
Capital expenditures	**13,775**	9,093	6,162	5,248	23,130
Mine development expenditures	**–**	57	157	166	154
Year-end position					
Working capital	**115,531**	108,799	85,141	82,645	110,894
Ratio of current assets to current liabilities	**2.4 to 1**	2.0 to 1	2.2 to 1	2.1 to 1	2.4 to 1
Property and equipment:					
At cost	**540,420**	540,937	535,421	476,283	469,663
Cost less depreciation and impairment	**177,062**	177,619	190,846	152,544	171,296
Total assets	**402,702**	414,181	371,616	334,879	403,653
Other long-term liabilities	**73,492**	60,527	64,097	65,977	62,473
Long-term debt	**32,916**	41,549	85,756	36,219	47,251
Shareholders' equity	**211,478**	208,138	153,573	159,094	214,350
Book value per share:					
Basic	**11.00**	11.65	9.27	9.61	12.98
Diluted	**10.92**	11.46	9.21	9.58	12.87
Weighted-average number of shares of stock outstanding:					
Basic	**19,219,099**	17,865,053	16,562,864	16,557,388	16,518,691
Diluted	**19,370,748**	18,163,915	16,671,916	16,608,725	16,650,587
Shareholders of record	**1,572**	1,683	1,791	1,864	1,981
Number of employees	**1,970**	1,912	1,833	1,862	1,946

Minority interest of $45,000 decreased the net loss for 2003.

In addition to the capital expenditures shown above, the Company purchased $0.4 million of assets in 2005, $0.9 million of assets in 2004 and $51.8 million of assets in 2003 that were previously held under operating leases and used by the Company.

Changes in deferred tax valuation allowances decreased income tax expense by $8.1 million and $9.3 million in 2005 and 2004, respectively, and increased income tax expense by $5.3 million and $19.9 million in 2003 and 2002, respectively.

A special charge reduced net income by $16.5 million in 1998.

See Notes to Consolidated Financial Statements.

2000	1999	1998	1997	1996	1995
$ 563,690	$ 455,707	$ 409,892	$ 433,801	$ 376,279	$ 369,618
444,951	363,773	325,173	324,463	271,149	268,732
118,739	91,934	84,719	109,338	105,130	100,886
22,986	10,558	(10,313)	36,024	34,305	29,086
4,652	4,173	1,249	553	1,128	1,653
18,334	6,385	(11,562)	35,471	33,177	27,433
4,169	(54)	(4,430)	9,874	8,686	6,744
14,165	6,439	(7,132)	25,597	24,491	20,689
0.87	0.40	(0.44)	1.58	1.55	1.28
0.86	0.40	(0.44)	1.56	1.53	1.27
0.48	0.48	0.48	0.46	0.42	0.36
22,664	27,037	24,589	19,329	22,954	20,911
21,306	16,758	36,732	53,155	26,825	24,244
332	288	433	9,526	3,663	787
143,387	124,831	100,992	100,599	128,172	125,156
2.3 to 1	2.3 to 1	2.1 to 1	2.3 to 1	2.9 to 1	2.9 to 1
449,697	440,234	421,467	463,689	404,127	374,367
170,460	170,939	164,469	173,622	130,220	121,194
452,506	428,406	403,690	383,852	355,779	331,853
55,454	53,837	49,955	48,025	47,271	45,445
43,305	42,305	32,105	17,905	18,860	16,996
229,907	220,638	221,811	236,813	219,257	200,302
14.11	13.62	13.63	14.60	13.84	12.40
13.98	13.55	13.50	14.41	13.72	12.30
16,292,431	16,198,885	16,267,804	16,214,718	15,846,358	16,159,508
16,448,667	16,279,591	16,424,747	16,429,468	15,980,481	16,289,795
2,101	2,330	2,313	2,329	2,407	2,351
2,500	2,257	2,167	2,160	1,926	1,856

BRUSH ENGINEERED MATERIALS INC.

Directors, Officers, Facilities and Subsidiaries

Board of Directors and Committees of the Board

Albert C. Bersticker [2,3,4]
Retired Chairman and CEO
Ferro Corporation

Gordon D. Harnett [2]
Chairman and CEO
Brush Engineered Materials Inc.

Joseph P. Keithley [2,3,4,5]
Chairman, President and CEO
Keithley Instruments, Inc.

William B. Lawrence [1,4]
Former Executive Vice President,
General Counsel & Secretary
TRW, Inc.

William P. Madar [2,3,4]
Retired Chairman and Former CEO
Nordson Corporation

William G. Pryor [3,4,5]
Retired President
Van Dorn Demag Corporation

Former President and CEO
Van Dorn Corporation

N. Mohan Reddy [1,4]
Professor
The Weatherhead School of Management
Case Western Reserve University

William R. Robertson [1,4,5]
Consulting Partner
Kirtland Capital Partners

John Sherwin, Jr. [1,2,4,5]
Lead Director
President
Mid-Continent Ventures, Inc.

1 Audit Committee
2 Executive Committee
3 Governance Committee
4 Organization and Compensation Committee
5 Retirement Plan Review Committee

Charles F. Brush, III
Director Emeritus

Corporate and Executive Officers

Gordon D. Harnett [1,2]
Chairman and CEO

Richard J. Hipple [1,2]
President and COO

John D. Grampa [1,2]
Vice President Finance and
Chief Financial Officer

Daniel A. Skoch [1,2]
Senior Vice President
Administration

Michael C. Hasychak [1]
Vice President, Treasurer and Secretary

James P. Marrotte [1]
Vice President, Controller

John J. Pallam [1]
Vice President, General Counsel

Gary W. Schiavoni [1]
Assistant Treasurer and Assistant Secretary

1 Corporate Officers
2 Executive Officers

Operating Groups

Alloy Products
Donald G. Klimkowicz, President

Beryllium Products
Michael D. Anderson, President

Brush International, Inc.
Mark M. Comerford, President

Brush Resources Inc.
Alex C. Boulton, President

Technical Materials, Inc.
Alfonso T. Lubrano, President

Williams Advanced Materials Inc.
Richard W. Sager, President

Offices and Facilities

Manufacturing Facilities
Brewster, New York
Buellton, California
Buffalo, New York
Delta, Utah
Elmore, Ohio
Fremont, California
Limerick, Ireland
Lincoln, Rhode Island
Lorain, Ohio
Milwaukee, Wisconsin
Newburyport, Massachusetts
Oceanside, California
Reading, Pennsylvania
Santa Clara, California
Singapore
Subic Bay, Philippines
Taipei, Taiwan
Tucson, Arizona
Wheatfield, New York

Corporate Offices
Cleveland, Ohio

Domestic Service Centers
Elmhurst, Illinois
Fairfield, New Jersey
Warren, Michigan

International Service Centers and Sales Offices
Fukaya, Japan
Singapore
Stuttgart, Germany
Theale, England
Tokyo, Japan

International Representative Offices
Hong Kong
Shanghai, China
Taipei, Taiwan
KyunGi-Do, Korea

Subsidiaries

BEM Services, Inc.
Cleveland, Ohio

Brush Wellman Inc.
Cleveland, Ohio

Brush Ceramic Products Inc.
Tucson, Arizona

Brush International, Inc.
Cleveland, Ohio

Brush Resources Inc.
Delta, Utah

Brush Wellman GmbH
Stuttgart, Germany

Brush Wellman (Japan), Ltd.
Tokyo, Japan

Brush Wellman Limited
Theale, England

Brush Wellman (Singapore) Pte Ltd
Singapore

CERAC, incorporated
Milwaukee, Wisconsin

Circuits Processing Technology, Inc.
Oceanside, California

OMC Scientific Holdings Limited
Limerick, Ireland

Technical Materials, Inc.
Lincoln, Rhode Island

Thin Film Technology, Inc.
Buellton, California

Williams Advanced Materials Inc.
Buffalo, New York

Williams Advanced Materials
Far East Pte Ltd.
Singapore

Williams Advanced Materials
(Netherlands) B.V.
The Netherlands

Zentrix Technologies Inc.
Newburyport, Massachusetts

Corporate Data

Annual Meeting

The Annual Meeting of Shareholders will be held on May 2, 2006 at 11:00 a.m. at The Forum, One Cleveland Center, 1375 East Ninth Street, Cleveland, Ohio.

Investor Information

Brush Engineered Materials Inc. maintains an active program of communication with shareholders, securities analysts and other members of the investment community. Management makes regular presentations in major financial centers around the world. To obtain:

- additional copies of the annual report
- SEC Form 10K/10Q

Please contact:
Michael C. Hasychak
Vice President, Treasurer and Secretary

Web Site

Brush Engineered Materials Inc.'s web site on the Internet offers financial and investor information, news and facts about the Company, its businesses, markets and products. The Company has adopted Corporate Governance Guidelines and a Code of Conduct Policy, in compliance with applicable New York Stock Exchange and Securities and Exchange Commission requirements. These materials, along with the charters of the Audit, Governance, Organization and Compensation, and Retirement Plan Review Committees of the Company's Board of Directors, which also comply with applicable requirements, are available on the Company's web site.

Visit the site at: http://www.beminc.com

Auditors

Ernst & Young LLP
925 Euclid Avenue, Suite 1300, Cleveland, Ohio 44115

Transfer Agent and Registrar

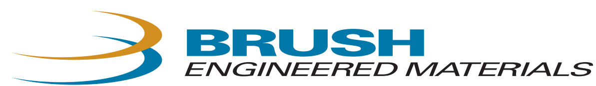
LaSalle Bank, N.A.
135 South LaSalle Street, Suite 1811, Chicago, Il 60603
For shareholder inquiries, call: (800) 246-5761
www.lasallebank.com

Stock Listing

New York Stock Exchange/Symbol: BW

Corporate Headquarters

Brush Engineered Materials Inc.
17876 St. Clair Avenue, Cleveland, Ohio 44110
(216) 486-4200 • Facsimile: (216) 383-4091



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