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BRUSH ENGINEERED MATERIALS INC

Form 11-K

June 28, 2004

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

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended December 31, 2003  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5885

BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN  
(Full Title of the Plan)

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

(Name of issuer of the securities held  
pursuant to the plan and the address  
of its principal executive office.)

BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN

REQUIRED INFORMATION  
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Report of Independent Registered Public Accounting  
Firm

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Statements of Net Assets Available for Benefits -

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Plan Administrator  
Brush Engineered Materials Inc.  
Savings and Investment Plan

We have audited the accompanying statements of net assets available for benefits of the Brush Engineered Materials Inc. Savings and Investment Plan as of December 31, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. These financial statements are the responsibility of the Plan'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 net assets available for benefits of the Plan at December 31, 2003 and 2002, and the changes in its net assets available for benefits for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2003, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing

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procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Cleveland, Ohio  
June 17, 2004

BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN  
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	DECEMBER 31	
	2003	2002
	-----	-----
ASSETS		
Investments	\$114,523,015	\$ 87,962,949
Contribution receivables:		
Employer	24,333	23,116
Participants	151,171	136,559
	-----	-----
Total contribution receivables	175,504	159,675
	-----	-----
Noninterest-bearing cash	105,779	15,788
interest receivable	693	580
Pending sales	104,585	22,829
	-----	-----
NET ASSETS AVAILABLE FOR BENEFITS	\$114,909,576	\$ 88,161,821
	=====	=====

See accompanying notes to financial statements.

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BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN  
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
YEAR ENDED DECEMBER 31, 2003

ADDITIONS

Net investment income:	
Net appreciation in fair value of investments	\$ 25,161,673
Interest and dividends	1,494,443
	-----

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	26,656,116
Contributions:	
Participants	5,608,351
Employer	951,165
Employee PreTax Catch-up	67,503
Rollover	101,661
	-----
	6,728,680
	-----
Total additions	33,384,796
DEDUCTIONS	
Benefits paid directly to participants	6,621,286
Administration fee	15,755
	-----
Total Deductions	6,637,041
	-----
Net increase	26,747,755
Net assets available for benefits:	
Beginning of year	88,161,821
	-----
End of year	\$114,909,576
	=====

See accompanying notes to financial statements.

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BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
AND YEAR ENDED DECEMBER 31, 2003

NOTE A - DESCRIPTION OF THE PLAN

The following description of the Brush Engineered Materials Inc. Savings and Investment Plan (Plan) provides only general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions.

GENERAL

The Plan is a defined contribution plan that covers certain eligible employees of Brush Engineered Materials Inc. (Company) and participating employers who have adopted the Plan (Company reference includes participating employers where appropriate). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

CONTRIBUTIONS

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The Plan provides for basic contributions by employees of up to 6% of their earnings through either pre-tax (salary reduction) or after-tax contributions. Currently, basic contributions are matched by the Company at the rate of 25% of such contributions. The rate at which such basic contributions are matched by the Company may be decreased or increased (up to a 100% rate) by action of the Company's Board of Directors.

An employee who makes basic contributions of 6% of earnings may also make supplemental contributions of up to 11% (44% for pay periods after February 13, 2004) of earnings which are not matched by Company contributions and which may be made in any combination of pre-tax and/or after-tax contributions.

An employee's contributions made to the Plan on a pre-tax basis may not exceed certain IRS maximum amounts. The maximum amount is \$13,000 in 2004. If an employee will be 50 or older by the end of the plan year, and is making the maximum elective contribution for the year, he/she may make additional pre-tax "catch-up" contributions of up to 17% (75% for pay periods ending after December 31, 2003) of earnings. In 2004, the maximum amount for a catch-up contribution is \$3,000. Catch-up contributions are not matched by Company contributions.

Currently, participants can direct, in increments of 1%, their basic, supplemental, rollover, catch-up, Company matching, and transfer contributions (as described in the Plan) to be invested in any of the fund options offered by the Plan, in increments of 1%. Participants can also transfer amounts between fund options on each investment change date.

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BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

### PAYSOP FEATURE

The Plan includes a Payroll Stock Ownership Plan (PAYSOP) feature that applied through 1986. Under the PAYSOP, the Company made contributions based upon a percentage of payroll and was afforded an additional credit against federal income tax up to the amount allowable by the Internal Revenue Code. The PAYSOP contribution by the Company, which could be in Common Stock of the Company or cash used to purchase Common Stock of the Company, was a percentage of the compensation paid to all employees who made salary reduction contributions to the Plan at any time during the year and who were members of the Plan as of the last pay period of such year. The shares of Common Stock of the Company contributed or purchased were allocated equally to all eligible participants.

### VESTING

All employee and Company matching contributions are fully vested at all times.

### PARTICIPANT LOANS

A participant may borrow funds from his account, excluding his interest in the PAYSOP Fund, provided such loan is secured by 50% of the value of the participant's account immediately prior to the loan and evidenced by a promissory note executed by the participant.

### PAYMENT OF BENEFITS

At retirement, death or other termination, a participant (or his death beneficiary) is eligible to receive a distribution of all employee, Company

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matching and PAYSOP contributions credited to the employee's account plus or minus any net gain or loss thereon.

The value of distributions and withdrawals is based on the value of a participant's account on the valuation date immediately preceding the date of distribution or withdrawal and is deducted from the participant's account as of such valuation date.

Distribution to a participant or a person designated by the participant as his death beneficiary is made under one or more (as applicable) of the following methods as elected by the participant (or in certain cases the death beneficiary):

- (i) Lump sum payment in cash;
- (ii) Lump sum payment in cash, except that a participant's interest in the Company Stock Fund and the PAYSOP contributions account will be paid in full shares of Common Stock of the Company, with any fractional shares being paid in cash; and
- (iii) Periodic distributions, not more frequently than monthly, of at least \$200.

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### BRUSH ENGINEERED MATERIALS INC. SAVINGS AND INVESTMENT PLAN NOTES TO FINANCIAL STATEMENTS - CONTINUED

#### INSURANCE POLICIES

Prior to June 1, 1989, participants who were employees of Williams Advanced Materials Inc. could have directed a portion of their contributions to be used to purchase insurance policies that were excluded from the former Williams Advanced Materials Inc. Savings and Investment Plan assets. Life insurance policies on the lives of participants, purchased under the former Williams Advanced Materials Inc. Savings and Investment Plan prior to July 1, 1989, may continue to be held.

#### PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

#### NOTE B - SUMMARY OF ACCOUNTING POLICIES

##### BASIS OF ACCOUNTING

The financial statements of the Plan have been prepared on the accrual basis of accounting.

##### INVESTMENT VALUATION

Investments are stated at fair value. Investment in the company stock fund is valued based on the latest reported closing price of the stock component and the actual cash held in the fund. The shares of registered investment companies are valued at quoted market prices that represent the net asset values of shares held by the Plan at the latest closing price. Investment in participation units

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of the money market funds are stated at fair value as determined by Fidelity Management Trust Company, the Trustee. Participant loans are valued at their outstanding balances, which approximate fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest and dividend income is recorded on the accrual basis.

### USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

### NOTE C - INVESTMENTS

During 2003, the Plan's investments (including investments purchased, sold as well as held during the year) appreciated in fair value as determined by quoted market prices as follows:

	Net Realized and Unrealized Appreciation in Fair Value of Investments -----
Brush Engineered Materials Inc. Common Stock	\$ 9,495,826
Shares of registered investment companies	15,665,846
	-----
	\$25,161,673
	=====

Investments that represent 5% or more of fair value of the Plan's net assets are as follows:

	December 31	
	2003	2002
	-----	-----
Vanguard Asset Allocation Fund	\$10,522,477	\$ 8,357,221
PIMCO Total Return Fund	10,514,486	9,970,018
Brush Engineered Materials Inc. Common Stock	13,856,637	5,782,563
TORRAY Fund	10,911,297	8,475,838
Fidelity Blue Chip Growth Fund	21,940,540	17,769,424
Fidelity Diversified International Fund	9,280,584	6,300,497
Fidelity Money Market Trust: Retirement		

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Money Market Portfolio	9,062,757	10,374,145
Spartan U.S. Equity Index Fund	16,177,286	12,310,311

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BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE D - DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 at December 31, 2003 and 2002:

	December 31,	
	2003	2002
Net assets available for benefits per the financial statements	\$114,909,576	\$ 88,161,821
Amounts allocated to withdrawn participants	0	(3,592)
Net assets available for benefits per Form 5500	\$114,909,576	\$ 88,158,229

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 for the year ended December 31, 2003:

Benefits paid to participants per the financial statements	\$6,621,286
Less: amounts allocated on Form 5500 to withdrawn participants at December 31, 2002	(3,592)
Benefits paid to participants per the Form 5500	\$6,617,694

Amounts allocated to withdrawn participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to year end but not yet paid.

NOTE E - INCOME TAX STATUS

The Plan has received a determination letter from the Internal Revenue Service dated July 25, 2002, stating that the Plan is qualified under Section 401(a) of



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the Internal Revenue Code (Code) and, therefore, the related trust is exempt from taxation. Subsequent to the issuance of the determination letter, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan Administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

### NOTE F - TRANSACTIONS WITH PARTIES-IN-INTEREST

All legal, accounting, and administrative expenses of the Plan are paid by the Company. Other than as described above or pursuant to the trust agreement, the Plan did not have any agreements or transactions with parties-in-interest.

During 2003, the Plan had the following transactions related to shares of Brush Engineered Materials Inc. Common Stock:

Purchases	\$5,731,918
Sales	6,670,792

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### NOTE G - RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

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BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN  
EIN: 34-1919973 PLAN NUMBER - 003  
SCHEDULE H, LINE 4i  
SCHEDULE OF ASSETS (HELD AT END OF YEAR)

DECEMBER 31, 2003

IDENTITY OF ISSUE -----	DESCRIPTION OF INVESTMENT -----
Brush Engineered Materials Inc. Common Stock *	905,071.000 shares

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### Shares of registered investment companies:

Vanguard Asset Allocation Fund	466,421.833 shares
PIMCO Total Return Fund	981,744.687 shares
Franklin Small-Mid Cap Growth Fund	95,891.958 shares
MSI Small Company Growth Fund	91,163.804 shares
TORRAY Fund	272,918.896 shares
Fidelity Blue Chip Growth Fund*	553,634.632 shares
Fidelity Diversified International Fund*	384,767.179 shares
Fidelity Freedom Income Fund*	38,494.677 shares
Fidelity Freedom 2000 Fund*	44,983.568 shares
Fidelity Freedom 2010 Fund*	82,229.748 shares
Fidelity Freedom 2020 Fund*	118,754.36 shares
Fidelity Freedom 2030 Fund*	47,345.085 shares
Fidelity Freedom 2040 Fund*	58,011.942 shares
Spartan U.S. Equity Index Fund*	410,486.818 shares

### Money market funds:

Fidelity Employee Benefits Money Market Fund*	795,326.000 units
Fidelity Money Market Trust: Retirement Money Market Portfolio*	9,062,757.31 shares

Participant Promissory Notes *	1.66% - 5.69% with maturity dates through 2018
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\* Party-in-interest to the Plan.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934,

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the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

BRUSH ENGINEERED MATERIALS INC.  
SAVINGS AND INVESTMENT PLAN

By /s/ Michael C. Hasychak  
Vice President, Treasurer and Secretary  
Brush Engineered Materials Inc.

Date: June 28, 2004