

MAKE HISTORY

OR BE HISTORY

Defining the Future of Materials Integrity Management



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MAKE HISTORY

OR BE HISTORY

2003 Annual Report. The call to Team Entegris is clear: As a global leader in materials integrity management, we have to make history every day. Our role is vital. We provide the products and services that protect and transport the critical materials enabling the semiconductor, data storage, life sciences, fuel cell and other key technology-driven industries.

In 2003, we achieved our 37th consecutive year of profitability. This accomplishment was due to our commitment to demonstrating our company values: Integrity, Excellence, Respectful Relationships and Financial Success.

Today, we enjoy strong leadership in the markets we serve. We have an unmatched ability to meet our customers' expectations. Our success strengthens our confidence and bolsters our resolve to be flexible and open-minded to new models and improved levels of accountability.

Rest assured, we are prepared to do what it takes to make history. We know what sound business leadership and operational efficiencies are required to be successful in rapidly changing and complex global industries. By leveraging our materials integrity management leadership across new markets, we stand ready for historic performance and even stronger growth.

We know what it takes to be a leader now and for the future. We are answering the call.



The materials integrity management company

LEVERAGE LEADERSHIP

LEVERAGE STRENGTHS

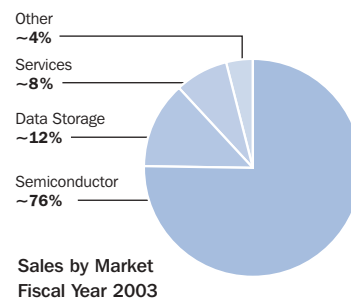


**Entegris is the leader in materials integrity management.
We're building on that foundation by leveraging our
leadership in new and existing markets.**

Applying Leverage to Lead. Some companies are content with their success. Our success makes us wonder: What more could we do if we leverage the knowledge, expertise and leadership we've gained in materials integrity management across all our markets?

Entegris is the leader in materials integrity management products and services in the data storage and semiconductor industries. Our products and services protect and transport critical materials such as ultra-pure and corrosive fluids, silicon wafers, disks and devices used to manufacture chips and electronics. Our involvement in the semiconductor and data storage markets is a case study in market penetration. Even still, in 2003 we expanded our position in the semiconductor market by acquiring the wafer and reticle carrier product lines from a significant competitor and by entering the tape and reel market.

Strengthening Our Business. For several years, we've been seeking out opportunities to complement our advanced technologies, strengthen our business and allow us to grow into new markets. This year, we made significant progress by leveraging our materials integrity management products and services in the life sciences and fuel cell markets.



In 2003, Entegris purchased the assets of Electrol Specialties Company (ESC) to become a market leader in Clean-In-Place (CIP) technology in the life sciences industries. By integrating our fluoropolymer materials and fluid handling expertise with ESC's stainless steel system design and fabrication capabilities, we have extended Entegris' reach into the pharmaceutical and biotech markets.

Expanding into New Opportunities. The emerging fuel cell industry is a perfect fit for Entegris' core competencies in polymer material science and manufacturing. Our products help to control contamination, improve reliability and lower costs in our customers' products. Our fuel cell offerings provide fuel cell system developers with the tools they need to help move this emerging technology from concept to commercialization.

With 37 years' worth of knowledge, expertise and leadership in providing materials integrity management products and services, we apply our leverage across all our markets.

FORGE AHEAD

STAY AHEAD



Streamlined operations and our ability to innovate make us a nimble organization. Our agility and determination continues to propel us onward and upward.

Attaining Peak Performance. Entegris is a very efficient company. From customer service, logistics and purchasing, to manufacturing and demand management, we have a stated goal of making operations throughout our company a potent competitive weapon.

We have three major objectives in this endeavor: find greater efficiencies, reduce excess capacity and move production closer to where our customers are located.

Taking Efficiency to New Levels. In 2003, we continued to embrace LeanSigma Manufacturing enabling us to cut operating costs or avoid adding them entirely. Our ongoing operational improvements have also led us to change our manufacturing philosophy to a build-to-order model. This has allowed us to reduce inventory.

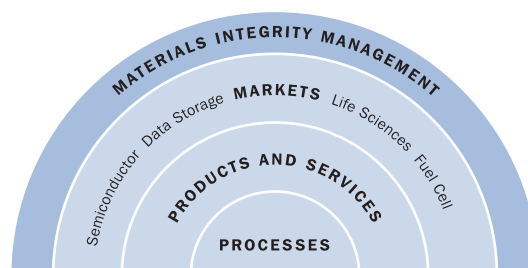
Additionally, we continuously empower our people to look at their processes and make structured improvements. As such, we've seen many successes in 2003, such as cutting average lead times by about 7%. For some of our strategic products, the lead-time was reduced up to 25%. In other words, through these improvements, we now respond faster, use less space and need fewer resources.

Reaching for Our Goals. All told, 2003 saw many increases in efficiencies. We gained the opportunity to consolidate our facilities because we are doing more with less. Looking forward, we strive to improve efficiency even more within our facilities. When possible, we will move manufacturing closer to our customers. And we will keep looking at our entire infrastructure to streamline it to be as proficient as possible.

In our determination to stay ahead of the competition, we relentlessly forge ahead.

The Entegris Business Framework

Entegris' business domain is the world of materials integrity management. Within this domain we serve the semiconductor, data storage, life sciences and fuel cell markets. We offer complete solution sets to our customers through products and services derived from our capabilities, competencies and processes.



An illustration of two men in business suits shaking hands. The man on the left is shown in profile, looking towards the right. The man on the right is shown from a three-quarter view, looking down at the handshake. The background features a large, stylized white cloud. The text 'ADD VALUE' is centered within the cloud, with a red horizontal line underneath it. Below the line, the text 'BECOME VALUABLE' is written in a smaller font.

ADD VALUE

BECOME VALUABLE

Entegris develops new technologies and services that help our customers become more profitable. By working with them and anticipating critical requirements, we become a valuable partner.

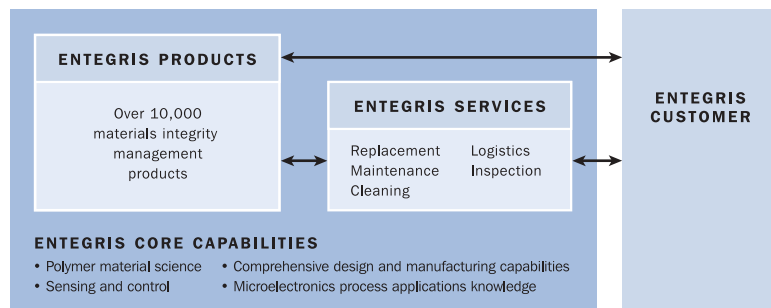
Working Hand-in-hand. Entegris is a market leader because we provide indispensable services and technology to help our customers succeed. Our customers are focusing on their core competencies to gain efficiencies. As a result, these leading companies look to us when outsourcing their parts cleaning, maintenance and training.

Providing Trusted Expertise. Entegris adds value and supports many leaders in the semiconductor and data storage industries with our extensive service offerings. With our on-site services, we strive to enhance predictability, maximize productivity and reduce costs by assigning a team of experts to a customer’s facility to manage critical material handling products and related technologies. In these partnerships, we make our customers aware of how specific process changes involving our products impact productivity.

When it comes to technology, few can match our knowledge of materials science or our drive to understand our customers’ materials and applications. Our customers benefit from the tools, experience and capabilities we have to routinely evaluate complex polymers and other materials from the molecular level on up. We bring to the market new and compound materials from intense research conducted in our Materials Technology Lab. Gaining a thorough understanding of how materials interact and perform is the first step in developing the products and services that address the critical requirements of our customers.

Making Valuable Connections. Moving forward, we will continue to proliferate our services to more customers. As companies outsource services to us, we become more valuable as a strategic supplier. No other materials integrity management company offers such services, and no one else offers them on a global scale. The same goes for our pursuit of technological knowledge. Our knowledge and capabilities give us the means to add value and become more valuable to our customers.

Our Value Proposition
Entegris uses its core capabilities to develop new technologies and services that help our customers become more profitable.





A LETTER TO OUR SHAREHOLDERS

Making History in 2003. It was another historic year for Team Entegris as we leveraged our materials integrity management leadership across all our markets, increased our operational efficiency and expanded our service offerings. On behalf of Team Entegris, we'd like to share some insight into the events of fiscal year 2003, and show how we are making history as a company.

Team Entegris proudly reports another profitable year for its fiscal year 2003, which ended on August 30, 2003. Team Entegris generated more than \$32 million in cash flow from operations and closed the year with \$105 million in cash and short-term investments. Notably, we generated cash from operations in every quarter during the fiscal year. We also invested more than \$60 million in new markets and acquisitions, and in engineering, research and development. These investments enhance our leadership position in materials integrity management and better position Entegris for the future.

Throughout the year, we diligently managed our assets. We paid particular attention to inventory control and maintained low debt levels. Our balance sheet remains strong. Financially, we're a stronger company than ever before.

These achievements are possible due to Team Entegris' ongoing commitment to operate as a values-based company. Accordingly, we work hard to demonstrate our company values – Integrity, Excellence, Respectful Relationships and Financial Success – in all that we do.

Leveraging Our Materials Integrity Management Leadership. Because we are flexible and ready to do what it takes to make history, we are changing one of the fundamental ways we approach our business: We are moving from a product focus to a market focus. As part of this change, we are looking at our core capabilities and seeing how we can expand our effectiveness in materials integrity management products and services across all our markets.

In the semiconductor market, we are expanding our position and strengthening our business. For example, we acquired the wafer and reticle carrier product line (WRC) from a significant competitor. We also expanded in the semiconductor tape and reel market, which is a vital packaging system for protecting and transporting microelectronic components.

“For 37 years, we’ve forged ahead, putting Entegris in a better position. Our people, products, services, processes and significant acquisitions will further position us to achieve success in the markets we serve.”

— **James E. Dauwalter**
President and Chief Executive Officer

We took steps that will be key to the future growth of our company. We leveraged our materials integrity management products and services in the life sciences and fuel cell markets. We purchased the assets of Electrol Specialties Company (ESC), which extends Entegris’ reach in the life sciences market. Our sales in this market more than tripled in 2003, and we expect significant improvements in the next fiscal year as well.

We also continued to apply our expertise in polymer material science and manufacturing to build relationships with the leading innovators in the emerging fuel cell market.

Increasing Efficiency Across the Company. We are listening to the market, anticipating requirements and responding accordingly. As such, we are improving our operations by transitioning to a build-to-order manufacturing process, which among many other things, provides us with the opportunity to reduce inventory.

Entegris – A History in the Making

1966	1975	1979	1981	1982	1984	1987	1988
Founded Entered semiconductor market	Founded Metron Semiconductor Europa (MSE)	Began manufacturing polymer fluid handling components	EMPAK and Fluoroware separate	Entered the data storage market	Began manufacturing in Japan	Introduced 200 mm wafer carriers	Began manufacturing in Germany

From an asset management perspective, improvements in operating efficiency have significantly reduced inventory and freed up cash, which are essential for our strategic investments. They are also necessary and wise in order to strengthen our business for the long term.

Additional efforts to improve efficiency included the realignment of some manufacturing operations to be closer to our customers. This year, we moved our Polymer Services operations to Southeast Asia. Naturally, being closer to our customers positions us very well for future growth. These developments are all positive steps that will increase Entegris' efficiency and effectiveness.

Applying Innovation in All Our Markets. We are the leader in materials integrity management products and services in the data storage and semiconductor industries, and we take our leadership responsibility seriously. As part of our goal to leverage our leadership across our markets, including life sciences and fuel cell, we are actively applying innovation.

“Our values frame the behavior and performance for each member of Team Entegris all around the world, increasing Entegris’ potential for success.”

— Stan Geyer
Chairman of the Board

Throughout fiscal year 2003, we invested \$18 million in engineering, research and development in our business. It is not at all unusual for Entegris to consistently invest at this level, regardless of economic climate. Not many companies in this economy have the financial ability to do so. We do, because we firmly believe that it is essential to continually and vigorously invest in developing products, materials and solutions that solve our customers' problems. We are expanding our knowledge in the protection and transportation of critical materials beyond polymers. For example, in 2003, we announced a new alloy-based product called “HotZone™” for the data storage market.

We also increased our intellectual property in fiscal year 2003. We're proud to have gained 12 new U.S. patents for a total of 170. We also gained 30 new patents in other parts of the world, which raises Entegris' total number of patents outside of the U.S. to 275.

1993	1995	1997	1999	2000
Received ISO 9001 Certification	Expanded manufacturing facilities in Germany, Japan and United States	Introduced 300 mm FOUF Began manufacturing in Malaysia	Merged EMPAK and Fluoroware to become Entegris, Inc.	Became a publicly traded company on the NASDAQ® – symbol ENTG Generated over \$300 million in sales Full product line for life sciences offered

By applying innovation, we believe we will fulfill our goals to strengthen our market leadership and gain share in our current and new markets.

Looking Forward. We feel positive about our performance this year and our financial position going forward. From our perspective, Entegris is in a good position to see growth with market improvements because of our strong market share and our ability to meet customers' expectations. Our financial strength allows us to aim for stronger growth in both our current and new markets.

All combined, we are in a great position to leverage our infrastructure and deliver increased shareholder value. The accomplishments of 2003 are a credit to Team Entegris. Our employees all around the world work together as one, and we're proud to lead and be a part of this successful team.

Because of Team Entegris, we are making history.

**MANAGING FOR
LONG-TERM SUCCESS**

As part of our focus to manage the company for continued and long-term success, we introduced a list of five-year strategic goals at the beginning of fiscal 2003.

First, we want to be one of the top three players in all the markets we serve.

Second, we strive to generate an even greater percentage of sales from new products and services.

Third, we seek to increase annual revenues to \$700 million by the end of fiscal 2007.

Fourth, we want new markets to contribute \$150 million to our revenue stream.

Fifth, we seek to make our operations a competitive weapon by being the most efficient producer of goods and services in every market we serve.

As explained, we have made significant and measurable progress on each of these goals, and embrace the opportunity to continue doing so in 2004.



Stan Geyer
Chairman of the Board



James E. Dauwalter
President and Chief Executive Officer

2001	2002	2003
Acquired Atcor Corporation, Critical Clean Systems, Inc. and NT International	Entered the fuel cell market	Installed stationary PEM fuel cell at Entegris' facility Acquired wafer and reticle handling lines from significant competitor Acquired Electrol Specialties Company (ESC)

FINANCIALS

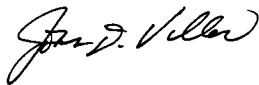
Entegris' strong financial performance is at the core of our success. We have a track record of annual profitability and an ability to generate cash that allows us to invest in the future.

Entegris has a history of investing in the future during all industry conditions.

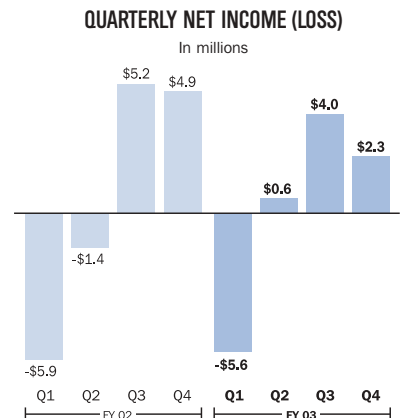
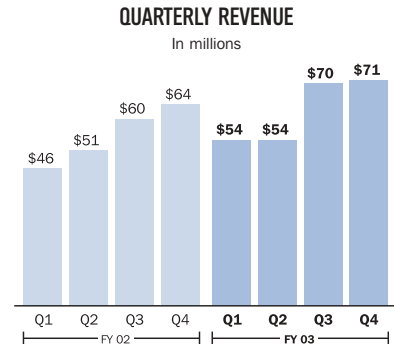
In fiscal year 2003, we again experienced a challenging market environment.

And yet, we were profitable, generated cash in every quarter, invested in engineering, research and development, and made two significant acquisitions.

We also expanded our materials integrity management expertise into our new markets of life sciences, fuel cell and services. We at Entegris look forward to continuing to manage our assets diligently to support and achieve our long-term strategic goals.



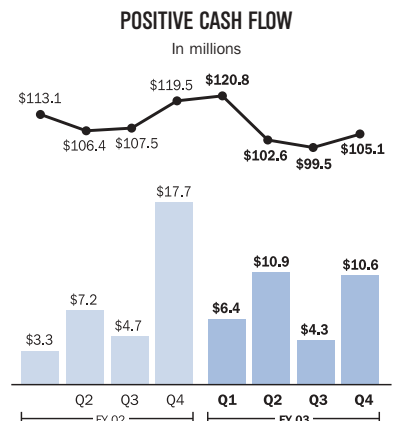
John D. Villas
Chief Financial Officer



FINANCIAL SUMMARY

(In thousands, except per share data)

	Year ended August 30, 2003	Year ended August 31, 2002	Percent (%) Change
Operating results			
Net sales	\$ 248,823	\$ 219,831	13%
Gross profit	98,723	88,706	11%
Operating loss ⁽¹⁾	(985)	(3,834)	-74%
Net income ⁽¹⁾	1,275	2,776	-54%
Earnings per share – diluted ⁽¹⁾	0.02	0.04	-50%
Weighted shares outstanding – diluted	75,475	74,170	2%
Balance sheet data			
Cash, cash equivalents and short-term investments	\$ 105,087	\$ 119,454	-12%
Total assets	417,666	390,260	7%
Long-term debt	10,070	12,691	-21%
Shareholders' equity	337,665	322,114	5%
Financial ratios			
Gross margin	39.7%	40.4%	
Operating margin ⁽¹⁾	-0.4%	-1.7%	
Return on average shareholders' equity ⁽¹⁾	0.4%	0.7%	



⁽¹⁾Includes a charge of \$1.5 million (\$1.0 million after taxes) related to the closure of a facility and the impairment loss of \$4.5 million (\$3.3 million after taxes) of an equity investment in 2003; and a charge of \$4.0 million (\$2.5 million after taxes) related to the closure of two facilities, the reversal of previous charges of \$2.4 million (\$1.5 million after taxes) and a one-time tax benefit of \$1.4 million in 2002.

— Cash, cash equivalents & short term investments at end of period
 ■ Net cash provided by operating activity

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OVERVIEW

Entegris, Inc. is a leading provider of materials integrity management products and services that protect and transport the critical materials used in key technology-driven industries. Entegris derives most of its revenue from the sale of products and services to the semiconductor and data storage industries. The Company's customers consist primarily of semiconductor manufacturers, semiconductor equipment and materials suppliers, and hard disk manufacturers which are served through direct sales efforts, as well as sales and distribution relationships, in the United States, Asia and Europe.

The Company's fiscal year is a 52- or 53-week period ending on the last Saturday of August. The last three fiscal years ended on the following dates: August 30, 2003, August 31, 2002 and August 25, 2001. Fiscal years 2003 and 2001 included 52 weeks, while fiscal 2002 comprised 53 weeks. Fiscal years are identified in this report according to the calendar year in which they end. For example, the fiscal year ended August 30, 2003 is alternatively referred to as "fiscal 2003" or "2003."

FORWARD-LOOKING STATEMENTS

The information in this Management's Discussion and Analysis of Financial Condition and Results of Operations, except for the historical information, contains forward-looking statements. These statements are subject to risks and uncertainties. These forward-looking statements could differ materially from actual results. The Company assumes no obligation to publicly release the results of any revision or updates to these forward-looking statements to reflect future events or unanticipated occurrences. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the related Notes, which are included elsewhere in this report.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. At each balance sheet date, management evaluates its estimates, including, but not limited to, those related to accounts receivable, warranty and sales return obligations, inventories, long-lived assets, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable

under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The critical accounting policies affected significantly by estimates, assumptions and judgments used in the preparation of the Company's financial statements are discussed below.

Allowance for Doubtful Accounts and Other Accounts Receivable-Related Valuation Accounts The Company maintains an allowance for doubtful accounts as well as reserves for sales returns and allowances, and warranty claims. Significant management judgments and estimates must be made and used in connection with establishing these valuation accounts. Material differences could result in the amount and timing of the Company's results of operations for any period if we made different judgments or utilized different estimates. In addition, actual results could be different from the Company's current estimates, possibly resulting in increased future charges to earnings.

The Company provides an allowance for doubtful accounts for all individual receivables judged to be unlikely for collection. For all other accounts receivable, the Company records an allowance for doubtful accounts based on a combination of factors. Specifically, management analyzes the age of receivable balances, historical bad debts write-off experience, industry and geographic concentrations of customers, general customer creditworthiness and current economic trends when determining its allowance for doubtful accounts. The Company's allowance for doubtful accounts was \$1.8 million at both August 30, 2003, and August 31, 2002.

A reserve for sales returns and allowances is established based on historical trends and current trends in product returns. At August 30, 2003 and August 31, 2002, the Company's reserve for sales returns and allowances was \$1.0 million and \$1.2 million, respectively.

The Company records a liability for estimated warranty claims. The amount of the accrual is based on historical claims data by product group and other factors. Claims could be materially different from actual results for a variety of reasons, including a change in the Company's warranty policy in response to industry trends, competition or other external forces, manufacturing changes that could impact product quality, or as yet unrecognized defects in products sold. At August 30, 2003, and August 31, 2002, the Company's accrual for estimated future warranty costs was \$2.1 million and \$0.7 million, respectively. The increase mainly reflected the assumption of \$1.3 million in liabilities made in connection with a fiscal 2003 acquisition.

Inventory Valuation The Company uses certain estimates and judgments to properly value inventory. In general, the Company's inventories are recorded at the lower of manufacturing cost or market value. Each quarter, the Company evaluates its ending inventories for obsolescence and excess quantities. This evaluation includes analyses of inventory levels, historical write-off trends, expected product lives, sales levels by product and projections of future sales demand. Inventories that are considered obsolete are written off. In addition, reserves are established for inventory quantities in excess of forecasted demand. At August 30, 2003, and August 31, 2002, inventory reserves were \$4.6 million and \$5.8 million, respectively.

The Company's inventories comprise materials and products subject to technological obsolescence which are sold in highly competitive markets and industries. If future demand or market conditions are less favorable than current analyses, additional inventory write-downs or reserves may be required and would be reflected in cost of sales in the period the revision is made.

Impairment of Long-Lived Assets The Company routinely considers whether indicators of impairment of its property and equipment assets, particularly its molding equipment, are present. If such indicators are

present, it is determined whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, an impairment loss is recognized based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted estimated future cash flows, appraisals or other methods deemed appropriate. If the assets determined to be impaired are to be held and used, the Company recognizes an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the asset then becomes the asset's new carrying value, which we depreciate over the remaining estimated useful life of the asset.

The Company assesses the impairment of intangible assets and related goodwill at least annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review, and potentially an impairment charge, include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the Company's overall business strategy;
- significant negative industry or economic trends; and
- significant decline in the Company's stock price for a sustained period changing the Company's market capitalization relative to its net book value.

The Company's marketable equity securities are periodically reviewed to determine if declines in fair value below cost basis are other-than-temporary, requiring an impairment loss to be recorded and the investment written down to a new cost basis. At August 30, 2003, the Company's investment in Metron Technology N.V. common stock had a carrying value of \$3.1 million with a fair value of \$6.1 million.

Income Taxes In the preparation of the Company's consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which the Company operates. This process involves estimating actual current tax exposures together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheet.

The Company has significant amounts of deferred tax assets. Management reviews its deferred tax assets for recoverability on a quarterly basis and assesses the need for valuation allowances. These deferred tax assets are evaluated by considering historical levels of income, estimates of future taxable income streams and the impact of tax planning strategies. A valuation allowance is recorded to reduce deferred tax assets when it is determined that it is more likely than not that the Company would not be able to realize all or part of its deferred tax assets.

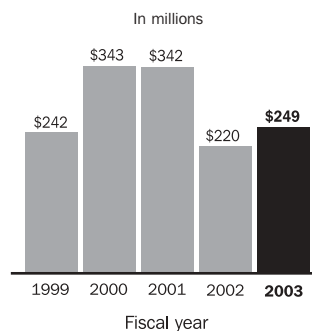
At August 30, 2003, the Company carried no valuation allowance against its net deferred tax assets, while at August 31, 2002, the Company carried a valuation allowance of \$1.4 million against its net deferred tax assets with respect to certain foreign net operating loss carryforwards. The adjustment to decrease the deferred tax asset valuation allowance was recorded as the Company determined that it was more likely than not that Entegris would be able to realize all of its remaining net deferred tax assets in the future.

RESULTS OF OPERATIONS

The following table sets forth the relationship between various components of operations, stated as a percent of net sales, for fiscal year 2003, 2002 and 2001. The Company's historical financial data were derived from its audited consolidated financial statements and related notes included elsewhere in this annual report.

	Percent of Net Sales		
	2003	2002	2001
Net Sales	100.0%	100.0%	100.0%
Cost of sales	60.3	59.6	52.5
Gross profit	39.7	40.4	47.5
Selling, general and administrative expenses	32.3	33.5	22.9
Engineering, research and development expenses	7.2	7.9	4.8
Other charges	0.6	0.7	3.8
Operating (loss) profit	(0.4)	(1.7)	15.9
Interest income, net	(0.2)	(0.7)	(1.3)
Other expense (income), net	1.8	(0.4)	(0.3)
(Loss) income before income taxes and other items below	(1.9)	(0.6)	17.6
Income tax (benefit) expense	(2.5)	(1.5)	6.2
Equity in net loss (income) of affiliates	0.1	—	(0.4)
Minority interest	—	(0.4)	0.5
Net income	0.5	1.3	11.3

ANNUAL SALES



FISCAL 2003 COMPARED TO FISCAL 2002

Net sales Net sales increased 13% to \$248.8 million in fiscal 2003 from \$219.8 million in fiscal 2002. The increase reflected some improvement in the difficult business conditions that have affected the semiconductor industry since the latter half of fiscal 2001. In addition, sales from acquired businesses and improved sales associated with the Company's efforts to expand its materials integrity management expertise into new applications and new markets resulted in improved sales.

The following table summarizes total net sales by markets served for 2003 and 2002, along with the year-to-year percentage change:

(In thousands)	2003	2002	Percent change
Net Sales			
Semiconductor	\$189,950	\$175,741	8%
Data Storage	30,937	24,833	25
Services	20,170	17,285	17
Other	7,766	1,972	294
	\$248,823	\$219,831	13%

Unit driven sales for the full fiscal year were approximately 60% in 2003, compared to about 70% in 2002. Products associated with capital spending accounted for about 40% of total sales in 2003.

The semiconductor market generated about 76% of the Company's overall sales for 2003, compared to about 80% in the prior year. Sales of semiconductor products rose by 8% from 2002 to 2003. Sales for the Company's microenvironment products doubled over the prior year, which included sales from the wafer and reticle carrier product line acquired in the second quarter. This factor accounted for most of the overall increase in semiconductor market sales. Sales of wafer handling process products fell slightly year-over-year, as did sales of chemical containers.

The Company's data storage products accounted for about 12% of consolidated net sales in 2003, compared to 11% a year ago. Key customers in the industry implemented form-factor and process changes during the latter part of 2003, the major factor behind the 25% increase in sales.

Service business revenue, which accounted for about 8% of Entegris' overall sales, rose 17% compared to fiscal 2002. This increase reflects growth in both the Company's sales of equipment, used to clean wafer and disk carriers and shipping products, and sales of its on- and off-site cleaning services.

About 3 percent of overall sales for the year were generated in the life sciences market. Sales increased by 285% from fiscal 2002, about three-quarters of which was due to sales recorded by Electrol Specialties, a market leader in Clean-In-Place technology, which was acquired by the Company in January 2003.

On a geographic basis, Entegris' total sales in North America were 41%, in Asia Pacific 26%, in Europe 17% and in Japan 16%. Year-to-year sales comparisons saw solid sales gains in Europe, Japan and Asia Pacific with essentially flat sales reported for North America.

Based on current order rates, industry analyst expectations and other information, the Company expects that sales for the first quarter of fiscal 2004 will be down slightly from sales levels experienced in the fourth quarter of fiscal 2003. However, industry volatility and uncertain market conditions make it difficult to forecast for future quarters.

Gross profit Gross profit in fiscal 2003 increased 11% to \$98.7 million, compared to \$88.7 million in fiscal 2002. Fiscal 2003 gross margin was 39.7 percent, compared to 40.4 percent in 2002.

With the 13% increase in sales from 2002 to 2003, the Company typically would have expected a higher gross margin for the year. However, several factors combined to offset the benefit of the higher utilization of the Company's production capacity, many of them significantly affecting the Company in the fourth quarter. During the fourth quarter, the Company began the process of moving its manufacturing to a build-to-order model, which enabled the reduction of inventory. However, these actions led to significant under-absorption of fixed manufacturing costs during the quarter, accounting for approximately \$2.2 million in reduced gross profit.

Among other factors was the consolidation of several facilities as the Company moved its polymer material manufacturing operation from Texas to Malaysia, relocated its Upland, California operations to Chaska, Minnesota and consolidated its cleaning equipment operations into the Gilroy, California service center. Fiscal 2003 also included transition costs of approximately \$1.0 million related to the integration of the wafer and reticle carrier product line acquisition. Also negatively influencing margins were stronger sales in services and life sciences, two of the Company's new markets, where gross margins for such products and services are below those of the semiconductor and data storage markets.

Partly offsetting the declines was the benefit of the Company's actions in reducing fixed costs and increasing manufacturing efficiencies associated with the closure of manufacturing plants, investing in automation, continuing process improvements and instituting manufacturing Centers of Excellence.

As discussed above, the Company does not provide guidance about fiscal 2004 sales levels. However, in general, gross profit and gross margin variances mainly track the utilization of the Company's production capacity associated with varying sales levels.

Selling, general and administrative expenses (SG&A) SG&A expenses increased by \$6.7 million, or 9%, to \$80.3 million in fiscal 2003 from \$73.6 million in fiscal 2002. SG&A costs, as a percent of net sales, decreased to 32.3% from 33.5% with the impact of higher SG&A expenses more than offset by the effect of higher net sales. The year-to-year increase in SG&A expenses is due to a number of factors, including higher sales commissions, incentive compensation and amortization expense. In addition, fiscal 2003 included costs associated with the Company's two acquisitions, and the transition to a direct sales model in Japan for certain products previously sold under a distribution relationship.

Other charges During the first quarter of fiscal 2003, the Company recorded a pre-tax charge of \$1.8 million related to the relocation of its Upland, California operations and certain workforce reductions. The charge included \$0.9 million in termination costs related to a workforce reduction of approximately 75 employees, \$0.4 million for estimated losses for asset impairment and \$0.5 million for future lease commitments on the Upland facility. The Company recorded a pre-tax benefit of \$0.2 million in the fourth quarter of 2003 associated with the favorable settlement of a portion of the future lease commitments included in the aforementioned charge.

In 2002, the Company's results included a charge of \$4.0 million in connection with the closure of its Chanhassen, Minnesota plant. The charge included \$1.5 million in termination costs related to a workforce reduction of 230 employees and \$2.3 million for estimated losses for asset impairment.

The Company recorded pre-tax benefits of \$1.6 million and \$0.8 million in the third quarter and fourth quarters of 2002, respectively, associated with the reversal of previous accruals related to plant closures in 2002 and 2001. Approximately \$1.0 million of the reversals was associated with the favorable settlement of future lease commitments on the Castle Rock facility, for which the Company had recorded accruals in 2001. Lower than expected impairment costs accounted for approximately \$1.2 million of the reversals.

As of August 30, 2003, \$0.7 million remained outstanding in connection with the aforementioned charges and are primarily related to severance payments of \$0.5 million, which run through May 2004, and lease commitments of \$0.2 million, which run through July 2005.

Engineering, research and development expenses (ER&D) ER&D expenses increased 2% to \$17.8 million, or 7.2% of net sales, in 2003 as compared to \$17.4 million, or 7.9% of net sales, in 2002. The Company's ER&D activities continue to focus on the support of current product lines, and the development of new products and manufacturing technologies. The Company's ER&D expenses for the last half of the year included \$0.6 million related to the addition of employees hired in connection with the Company's second-quarter acquisition of Asyst Technologies, Inc.'s wafer and reticle carrier product lines.

Interest income, net The Company reported net interest income of \$0.6 million in 2003 compared to \$1.5 million in 2002. The decline reflects the significantly lower rates of interest available on the Company's investments in short-term debt securities compared to the year-ago period as well as slightly lower invested balances.

Other expense (income), net Other expense was \$4.4 million in fiscal 2003 compared to other income \$1.0 million in fiscal 2002.

Other expense in 2003 included an impairment loss of \$4.5 million, or \$3.3 million after tax, related to the write-down of the Company's equity investment in Metron Technology N.V. common stock. The Company, a founding shareholder of Metron, owned about 1.6 million shares of Metron common stock throughout 2003. Prior to the impairment charge, the Company's investment in Metron Technology N.V. common stock had a carrying value of \$7.6 million. At November 30, 2002, the fair value of the investment was \$3.1 million, based on a price of \$2.00 per share, the closing price of Metron at the end of the first quarter. The decline in fair value was determined to be other-than-temporary. Accordingly, an impairment loss of \$4.5 million was recorded and the investment in Metron common stock written down to a new carrying value of \$3.1 million.

Other income in 2002 consisted primarily of the foreign currency gains, with about \$0.7 million associated with the realization of translation gains realized upon the liquidation of the Company's Korean entity.

Income tax benefit The Company recorded an income tax benefit of \$6.2 million for fiscal 2003 compared to an income tax benefit of \$3.4 million in fiscal 2002. The income tax benefit for fiscal 2003 includes one-time benefits of \$0.9 million from the redetermination of prior years' taxes, \$1.4 million from the reversal of a valuation allowance on the net operating loss carryforwards of certain non-U.S. subsidiaries, and \$1.2 million related to the impairment loss recorded on the Company's investment in Metron stock. The reversal of the valuation allowance was based on a partial realization of the net operating loss carryforwards during fiscal 2003, and the current belief that sufficient taxable earnings will be generated in the future to allow the remaining net operating losses to be utilized. The income tax benefit for fiscal 2002 included a one-time benefit of \$1.4 million related to the repatriation of earnings from certain non-U.S. subsidiaries. The effective tax rate for fiscal 2003 was 129.4% compared to 241.8% in fiscal 2002. The difference between the fiscal 2003 effective tax rate of 129.4% and the US statutory rate of 35% is primarily due to the one-time benefits described above, lower taxes on foreign operations, a tax benefit associated with export activities and a tax benefit associated with R&D activities. The Company expects an effective tax rate of about 35% in fiscal 2004.

Equity in net loss of affiliates The Company's equity in the net loss of affiliates was \$0.1 million in 2003 and represents the Company's share of losses in entities accounted for under the equity method of accounting. No equity in the net earnings of affiliates was recorded in fiscal 2002 as the Company did not have entities under the equity method of accounting during that period.

Minority interest The Company recorded no minority interest in 2003 as all of its consolidated subsidiaries are presently 100%-owned. For fiscal 2002, the minority interest in subsidiaries' net loss was \$0.8 million, reflecting the net losses of the Company's formerly 51%-owned Japanese subsidiaries, which became 100%-owned in February 2002.

Net income The Company recorded net income of \$1.3 million, or \$0.02 per diluted share, in fiscal 2003, compared to net income of \$2.8 million, or \$0.04 per diluted share, in the year-ago period.

FISCAL 2002 COMPARED TO FISCAL 2001

Net sales Net sales were \$219.8 million in fiscal 2002, down 36% from \$342.4 million in fiscal 2001. The decline reflected the continuation of weakened business conditions in the semiconductor industry that began in the second half of fiscal 2001, as the semiconductor industry experienced unprecedented deterioration in market conditions, with rapidly falling rates of factory utilization and reduced capital spending. The sales decrease was attributable to softer demand for both fluid handling products, which generally depend on capital spending levels, and microelectronics products, which also depend on the utilization at semiconductor manufacturing facilities. Although the Company reported sequentially higher quarterly sales as fiscal 2002 progressed, fourth quarter revenues were still significantly below the record levels experienced in the first half of 2001.

Fiscal 2002 sales to the semiconductor market were down 41% from fiscal 2001, while accounting for about 80% of Entegris sales. Sales of the Company's data storage products in 2002 were down 34% from a year ago, making up 11% of total sales.

Service business revenue, which accounted for about 8% of Entegris' overall sales in 2002, nearly tripled from 2001 levels. This increase mainly reflected the full-year inclusion of sales from acquisitions made in late fiscal 2001.

Revenue declines were recorded in all geographic regions, with approximately 40% year-to-year declines experienced for North America, Europe and Japan, while sales to the Asia Pacific region fell just 13%. Overall, international sales accounted for approximately 53% of net sales in fiscal 2002, up from 50% in fiscal 2001. Fiscal 2002 sales were 47% to North America, 21% to Asia Pacific, 16% to Europe and 16% to Japan.

Gross profit Gross profit in fiscal 2002 decreased 45% to \$88.7 million, compared to \$162.7 million in fiscal 2001. The Company's gross margin for fiscal 2002 was 40.4% compared to 47.5% for fiscal 2001. Gross margin and gross profit declines were reported by both domestic and international operations. The drop in fiscal 2002 figures was primarily caused by the lower sales levels noted above, which resulted in lower factory utilization. Gross profit levels generally improved throughout the year as sales increased sequentially by quarter.

Partly offsetting the declines was the benefit of the Company's actions in reducing costs and increasing manufacturing efficiencies associated with the closure of manufacturing plants, investing in automation, changing process flows and instituting manufacturing Centers of Excellence. The Company also recorded lower asset impairment charges in 2002, incurring charges of \$1.1 million and \$3.5 million in 2002 and 2001, respectively, mainly for asset write-offs of molds.

Selling, general and administrative expenses (SG&A) SG&A expenses decreased \$4.9 million, or 6%, to \$73.6 million in fiscal 2002 from \$78.5 million in fiscal 2001. The decline was primarily due to significantly lower incentive compensation and charitable contribution accruals, which are based on the Company's results of operations, offset partly by increased expenditures for information systems and the continued building of the Company's global infrastructure which began in fiscal 2001. SG&A costs, as a percent of net sales, increased to 33.5% from 22.9% with the impact of lower SG&A expenses more than offset by the effect of lower net sales.

Other charges In the first quarter of 2002, the Company's results included a nonrecurring charge of \$4.0 million in connection with the closures of the Company's Chanhassen, Minnesota plant. The charge included \$1.5 million in termination costs related to a workforce reduction of 230 employees and \$2.3 million for estimated losses for asset impairment.

The Company recorded pre-tax benefits of \$1.6 million and \$0.8 million in the third quarter and fourth quarters of 2002, respectively, associated with the reversal of previous accruals related to plant closures in 2002 and 2001. Approximately \$1.0 million of the reversals was associated with the favorable settlement of future lease commitments on the Castle Rock facility, for which the Company had recorded accruals in 2001. Lower than expected impairment costs accounted for approximately \$1.2 million of the reversals.

Operating results in fiscal 2001 included two nonrecurring charges. In fiscal 2001, the Company recorded a charge of \$8.2 million related to the early termination of a distribution agreement and a \$4.9 million charge in connection with the closing of its Castle Rock, Colorado and Munmak, Korea facilities. Both charges are described in greater detail below.

As of August 31, 2002, \$0.2 million remained outstanding in connection with the aforementioned charges.

Engineering, research and development expenses (ER&D) ER&D expenses increased 5% to \$17.4 million, or 7.9% of net sales, in fiscal 2002 as compared to \$16.5 million, or 4.8% of net sales, in fiscal 2001. In fiscal 2002, the Company's expenditures were focused on supporting current product lines, developing new manufacturing technologies and developing next generation products for new and existing markets.

Interest income, net The Company reported net interest income of \$1.5 million in fiscal 2002 compared to \$4.5 million in fiscal 2001. The change reflects the significantly lower rates of interest earned on cash equivalents and short-term investments and a shift in the mix of such investments towards tax-exempt debt securities.

Other income, net Other income was \$1.0 million in fiscal 2002 compared to \$1.1 million in fiscal 2001. Other income in fiscal 2002 consisted primarily of the foreign currency gains, with about \$0.7 million associated with the realization of translation gains from the liquidation of the Company's Korean entity, while other income in fiscal 2001 included foreign currency translation gains offset by losses on sales of property and equipment.

Income tax expense (benefit) The Company recorded an income tax benefit of \$3.4 million for fiscal 2002 compared to income tax expense of \$21.3 million in fiscal 2001. The effective tax rate for fiscal 2002 was 241.8% compared to 35.5% in fiscal 2001. The variance primarily reflects the significant difference in the Company's pre-tax operating results. The

income tax benefit in fiscal 2002 includes a one-time benefit of \$1.4 million related to the repatriation of earnings from certain non-U.S. subsidiaries, while income tax expense in fiscal 2001 includes a \$1.6 million tax benefit associated with the closure of the Company's Korean manufacturing operations, losses of which were previously non-deductible.

Equity in net income of affiliates The Company recorded no equity in the net income of affiliates in fiscal 2002 compared to \$1.5 million in fiscal 2001, all of which was recorded in the first half of that fiscal year. This reflected the change in accounting for the Company's investment in Metron Technology N.V. (Metron), which was recorded under the equity method of accounting through the second quarter of fiscal 2001 at which time the Company began accounting for its remaining investment as an available-for-sale equity security, as its percentage ownership in Metron was reduced from 20% to 12%.

Minority interest For fiscal 2002, the minority interest in subsidiaries' net loss was \$0.8 million, reflecting the operating losses of the Company's formerly 51%-owned Japanese subsidiaries in the first half of the year. The company purchased the 49% minority interests in these entities in February 2002. This compares to minority interest in subsidiaries' net income of \$1.6 million for fiscal 2001.

Net income Net income decreased to \$2.8 million, or \$0.04 per share diluted, in fiscal 2002, compared to net income of \$38.6 million, or \$0.53 per share diluted, in fiscal 2001.

QUARTERLY RESULTS OF OPERATIONS

The table below presents selected data from the Company's consolidated statements of operations for the eight quarters ended August 30, 2003. This unaudited information has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this annual report. All adjustments which management considers necessary for the fair presentation of the unaudited information have been included in the quarters presented.

In the first quarter of fiscal 2003, the Company's results included an impairment loss, classified as other expense, of \$4.5 million related to the write-down of an equity investment. Also in the first quarter of 2003, the Company recorded a pre-tax charge of \$1.8 million primarily related to the relocation of its Upland, California operations. In the fourth quarter of 2003, the Company recorded pre-tax benefits of \$0.2 million, associated with adjustment of the aforementioned pretax charge related to the plant relocation.

STATEMENTS OF OPERATIONS DATA

	Fiscal 2002				Fiscal 2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>(In thousands)</i>								
Net sales	\$ 45,852	\$ 50,702	\$ 59,709	\$ 63,568	\$ 53,721	\$ 54,131	\$ 69,996	\$ 70,975
Gross profit	15,195	16,938	28,127	28,446	21,878	22,555	30,472	23,818
Selling, general and administrative expenses	17,630	17,566	19,299	19,074	18,922	19,833	20,264	21,288
Engineering, research and development expenses	4,041	4,475	4,228	4,664	4,073	4,233	4,683	4,814
Operating profit (loss)	(10,477)	(5,103)	6,240	5,506	(2,929)	(1,511)	5,525	(2,070)
Net income (loss)	\$ (5,916)	\$ (1,386)	\$ 5,226	\$ 4,852	\$ (5,642)	\$ 647	\$ 3,957	\$ 2,313
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>(Percent of net sales)</i>								
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	33.1	33.4	47.1	44.7	40.7	41.7	43.5	33.6
Selling, general and administrative expenses	38.4	34.6	32.3	30.0	35.2	36.6	29.0	30.0
Engineering, research and development expenses	8.8	8.8	7.1	7.3	7.6	7.8	6.7	6.8
Operating profit (loss)	(22.8)	(10.1)	10.5	8.7	(5.5)	(2.8)	7.9	(2.9)
Net income (loss)	(12.9)	(2.7)	8.8	7.6	(10.5)	1.2	5.7	3.3

In the first quarter of fiscal 2002, the Company's results include a pretax charge of \$4.0 million in connection with the closure of an additional plant. In the third and fourth quarters of 2002, the Company recorded pre-tax benefits of \$1.6 million and \$0.8 million, respectively, associated with the reversal of aforementioned pretax charges related to plant closures. Also in the third quarter of 2002, the Company recognized a one-time tax benefit of \$1.4 million.

Our quarterly results of operations have been, and will likely continue to be, subject to significant fluctuations due to a variety of factors, a number of which are beyond the Company's control.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations and capital requirements through cash flow from operating activities, long-term loans, lease financing and borrowings under domestic and international short-term lines of credit. In fiscal 2000, Entegris raised capital via an initial public offering.

Operating activities Cash flow provided by operating activities totaled \$32.1 million, \$32.9 million and \$80.0 million in fiscal 2003, 2002 and 2001, respectively. Cash flow provided by operating activities in 2003 mainly reflected nominal net earnings adjusted for noncash charges, including depreciation and amortization of \$27.2 million and an impairment loss of \$4.5 million on the Company's equity investment in Metron Technology N.V.

In addition, the Company's operating cash flows benefited from decreases in inventory of \$4.2 million and income tax-related accounts of \$2.0 million, and a \$5.2 million increase in accounts payable and accrued liabilities. Partially offsetting these items was an increase in accounts receivable of \$11.7 million, resulting from higher sales levels, particularly in Japan where receivables typically carry longer terms than elsewhere. Other changes to working capital accounts were relatively minor for the Company.

Working capital stood at \$159.8 million at August 30, 2003, including \$80.5 million in cash and cash equivalents, and short-term investments of \$24.5 million.

Investing activities Cash flow used in investing activities totaled \$37.5 million, \$38.3 million and \$110.1 million in 2003, 2002 and 2001, respectively.

Acquisition of property and equipment totaled \$13.4 million, \$19.6 million and \$24.2 million in 2003, 2002 and 2001, respectively. Capital expenditures in 2003 included investments in manufacturing, computer and laboratory equipment. The Company expects capital expenditures during fiscal 2004 will be in the range of \$20 to \$25 million, consisting mainly of spending on manufacturing equipment, tooling and information systems.

Acquisition of businesses totaled \$44.4 million, \$8.9 million and \$43.0 million in 2003, 2002 and 2001, respectively. The Company completed two transactions in 2003. In January 2003, the Company purchased the assets of Electrol Specialties Company (ESC), a leader in Clean-In-Place technology. In February 2003, the Company purchased the Wafer and Reticle Carrier product lines of Asyst Technologies, Inc. Goodwill and identifiable intangible assets of \$36.0 million and \$2.8 million, respectively, were recorded in connection with the acquisitions. Each of the above transactions was accounted for by the purchase method. Accordingly, the Company's consolidated financial statements include the net assets and results of operations from the dates of acquisition.

The Company had maturities, net of purchases, of debt securities classified as short-term investments of \$20.1 million during 2003. The

Company made purchases, net of maturities, of \$8.0 million and \$36.6 million of short-term investments in 2002 and 2001, respectively. Short-term investments stood at \$24.5 million at August 30, 2003.

Financing activities Cash provided by financing activities totaled \$11.0 million, \$5.6 million and \$2.0 million in fiscal 2003, 2002 and 2001, respectively.

The Company recorded proceeds of \$6.7 million, \$5.5 million and \$4.7 million in 2003, 2002 and 2001, respectively, in connection with common shares issued under the Company's stock option and stock purchase plans.

The Company made payments on short-term borrowings and long-term debt totaled \$13.3 million in fiscal 2003, while proceeds from borrowings were \$17.6 million.

As of August 30, 2003, the Company's sources of available funds comprised \$80.5 million in cash and cash equivalents, \$24.5 million in short-term investments and various credit facilities. Entegris has an unsecured revolving credit agreement with two commercial banks with aggregate borrowing capacity of \$40 million, with \$5.0 million in borrowings outstanding at August 30, 2003, and lines of credit with seven international banks that provide for borrowings of currencies for the Company's overseas subsidiaries, equivalent to an aggregate of approximately \$15.8 million. Borrowings outstanding on these lines of credit were approximately \$11.5 million at August 30, 2003.

Under the unsecured revolving credit agreements, we are subject to, and are in compliance with, certain financial covenants including ratios requiring a fixed charge coverage of not less than 1.10 to 1.00 and a leverage ratio of not more than 2.25 to 1.00. In addition, we must maintain a calculated consolidated and domestic tangible net worth, which, as of August 30, 2003, are \$204 million and \$125 million, respectively, while also maintaining consolidated and domestic aggregate amounts of cash and short-term investments of not less than \$75 million and \$40 million, respectively.

At August 30, 2003, the Company's shareholders' equity stood at \$337.7 million compared to \$322.1 million at the beginning of the year. The components of the increase included the Company's net earnings, the proceeds and tax benefits associated with the issuance of shares issued under the Company's stock option and stock purchase plans and increases in other comprehensive income totaling \$4.4 million.

The Company believes that its cash and cash equivalents, short-term investments, cash flow from operations and available credit facilities will be sufficient to meet its working capital and investment requirements for the next 12 months. However, future growth, including potential acquisitions, may require the Company to raise capital through additional equity or debt financing. There can be no assurance that any such financing would be available on commercially acceptable terms.

The following table summarizes the maturities of the Company's significant financial obligations:

<i>(In thousands)</i>	Long-term debt	Operating leases
Fiscal year ending:		
2004	\$ 2,412	\$ 3,385
2005	1,400	2,589
2006	886	1,542
2007	789	1,085
2008	812	1,025
Thereafter	6,183	2,388
Total	\$ 12,482	\$ 12,014

On June 9, 2003, the Company announced that it had filed a shelf registration statement with the Securities and Exchange Commission. Up to 25,000,000 shares of the Company's common stock may be offered from time to time under the registration statement, including 15,500,000 newly issued shares by Entegris and 9,500,000 currently outstanding shares by certain shareholders of the Company. The common stock may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. The Company stated that it would use the net proceeds from any sale of new Entegris shares for general corporate purposes or to finance acquisitions. The Company would not receive any proceeds from any sale of shares by the selling shareholders.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2002, the Emerging Issues Task Force issued EITF No. 00-21, "Revenue Arrangements with Multiple Deliverables." This issue addresses certain aspects of the accounting for arrangements under which a company will perform multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable, and there exists sufficient evidence of their fair values to separately account for some or all of the deliverables (that is, there are separate units of accounting). In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. This issue addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. This issue does not change otherwise applicable revenue recognition criteria. This issue is applicable for the Company for revenue arrangements entered beginning in fiscal 2004. The Company does not expect the adoption of EITF No. 00-21 to have a material effect on its consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities (VIEs)*. FIN 46 requires an investor with a majority of the variable interests in a variable interest entity to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. VIEs are entities in which the equity investors do not have a controlling interest or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties. The provisions of FIN 46 become effective for the Company during the second quarter of its fiscal year ending August 28, 2004. The Company does not expect to identify any VIEs that must be included in its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The Statement clarifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS No. 150 requires that those instruments be classified as liabilities in statements of financial position. This statement becomes effective for the Company during the first quarter of its fiscal year ending August 28, 2004. The Company is currently evaluating the effect of this statement, but does not expect that the adoption of SFAS No. 150 will have a material effect on its consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

Entegris' principal market risks are sensitivities to interest rates and foreign currency exchange rates. The Company's current exposure to interest rate fluctuations is not significant. Most of its long-term debt at August 30, 2003, carries fixed rates of interest. The Company's cash equivalents and short-term investments are debt instruments with maturities of 12 months or less. A 100 basis point change in interest rates would potentially increase or decrease net income by approximately \$0.5 million annually.

The Company uses derivative financial instruments to manage foreign currency exchange rate risk associated with the sale of products in currencies other than the U.S. dollar. At August 30, 2003, the company was party to forward contracts to deliver Japanese yen with notional value of approximately \$19 million. The cash flows and earnings of foreign-based operations are also subject to fluctuations in foreign exchange rates. A hypothetical 10% change in the foreign currency exchange rates would potentially increase or decrease net income by approximately \$2.5 million.

The Company's investment in Metron common stock is accounted for as an available-for-sale security. Consequently, the Company's financial position is exposed to fluctuations in the price of Metron stock. At August 30, 2003, the Company's investment in Metron Technology N.V. common stock had a carrying value of \$3.1 million with a fair value of \$6.1 million. Accordingly, a 10% adverse change in Metron's per share price would result in an approximate \$0.6 million decrease in the fair value of the Company's investment.

IMPACT OF INFLATION

The Company's financial statements are prepared on a historical cost basis, which does not completely account for the effects of inflation. Material and labor expenses are the Company's primary costs. The cost of polymers, its primary raw material, was essentially unchanged from one year ago. Entegris expects the cost of resins to remain stable in the upcoming fiscal year. Labor costs, including taxes and fringe benefits, rose slightly in fiscal 2003 and moderate increases also can be reasonably anticipated for fiscal 2004.

(In thousands, except per share data)

August 30, 2003

August 31, 2002

ASSETS

Current assets:

Cash and cash equivalents	\$ 80,546	\$ 74,830
Short-term investments	24,541	44,624
Trade accounts receivable, net of allowance for doubtful accounts of \$1,793 and \$1,798, respectively	48,567	35,371
Trade accounts receivable due from affiliates	4,037	4,219
Inventories	38,163	38,859
Deferred tax assets and refundable income taxes	14,637	16,039
Other current assets	3,564	2,793

Total current assets **214,055** **216,735**

Property, plant and equipment, net 95,212 102,104

Other assets:

Investments	8,596	7,883
Goodwill	67,480	31,310
Other intangible assets, less accumulated amortization of \$13,935 and \$9,423, respectively	29,441	30,294
Other	2,882	1,934

Total assets **\$ 417,666** **\$ 390,260**

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current maturities of long-term debt	\$ 2,412	\$ 2,144
Short-term borrowings	16,455	9,421
Accounts payable	9,570	7,977
Accrued liabilities	25,852	20,079

Total current liabilities **54,289** **39,621**

Long-term debt, less current maturities 10,070 12,691

Deferred tax liabilities 15,642 15,802

Minority interest in subsidiaries — 32

Total liabilities **80,001** **68,146**

Commitments and contingent liabilities

Shareholders' equity:

Common stock, par value \$.01; 200,000,000 shares authorized; issued and outstanding shares; 72,512,100 and 71,160,539, respectively	725	712
Additional paid-in capital	142,540	132,676
Retained earnings	192,207	190,932
Accumulated other comprehensive income (loss)	2,193	(2,206)

Total shareholders' equity **337,665** **322,114**

Total liabilities and shareholders' equity **\$ 417,666** **\$ 390,260**

See the accompanying notes to consolidated financial statements.

<i>(In thousands, except per share data)</i>	Fiscal year ended		
	August 30, 2003	August 31, 2002	August 25, 2001
Sales to non-affiliates	\$ 229,236	\$ 190,954	\$ 239,771
Sales to affiliates	19,587	28,877	102,673
Net sales	248,823	219,831	342,444
Cost of sales	150,100	131,125	179,774
Gross profit	98,723	88,706	162,670
Selling, general and administrative expenses	80,307	73,569	78,510
Engineering, research and development expenses	17,803	17,408	16,517
Other charges	1,598	1,563	13,144
Operating (loss) profit	(985)	(3,834)	54,499
Interest income, net	(579)	(1,466)	(4,477)
Other expense (income), net	4,423	(973)	(1,134)
(Loss) income before income taxes and other items below	(4,829)	(1,395)	60,110
Income tax (benefit) expense	(6,248)	(3,373)	21,339
Equity in net loss (income) of affiliates	144	—	(1,488)
Minority interest in subsidiaries' net (loss) income	—	(798)	1,643
Net income	\$ 1,275	\$ 2,776	\$ 38,616
Earnings per common share:			
Basic	\$ 0.02	\$ 0.04	\$ 0.56
Diluted	\$ 0.02	\$ 0.04	\$ 0.53

See the accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(In thousands)</i>	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total	Comprehensive income (loss)
Balance at August 26, 2000	68,317	\$ 683	\$ 114,003	\$ 152,091	\$ 67	\$ 266,844	
Repurchase and retirement of shares	(77)	(1)	(476)	(246)	—	(723)	
Shares issued pursuant to stock option plans	1,235	12	2,889	—	—	2,901	
Dilution of ownership on investments	—	—	—	(244)	—	(244)	
Reclassification associated with change in percentage ownership in Metron Technologies N.V. stock	—	—	—	(2,061)	2,698	637	
Shares issued pursuant to employee stock purchase plan	255	3	1,620	—	—	1,623	
Tax benefit associated with employee stock plans	—	—	3,413	—	—	3,413	
Foreign currency translation adjustment	—	—	—	—	(985)	(985)	\$ (985)
Net unrealized gain on marketable securities	—	—	—	—	225	225	225
Net income	—	—	—	38,616	—	38,616	38,616
Total comprehensive income							\$ 37,856
Balance at August 25, 2001	69,730	697	121,449	188,156	2,005	312,307	
Shares issued pursuant to stock option plans	1,222	12	3,959	—	—	3,971	
Shares issued in connection with acquisition	42	1	437	—	—	438	
Shares issued pursuant to employee stock purchase plan	167	2	1,540	—	—	1,542	
Tax benefit associated with employee stock plans	—	—	5,291	—	—	5,291	
Foreign currency translation adjustment	—	—	—	—	(71)	(71)	\$ (71)
Net unrealized loss on marketable securities	—	—	—	—	(4,140)	(4,140)	(4,140)
Net income	—	—	—	2,776	—	2,776	2,776
Total comprehensive loss							\$ (1,435)
Balance at August 31, 2002	71,161	712	132,676	190,932	(2,206)	322,114	
Shares issued pursuant to stock option plans	1,163	12	4,867	—	—	4,879	
Shares issued in connection with acquisition	21	—	281	—	—	281	
Shares issued pursuant to employee stock purchase plan	167	1	1,516	—	—	1,517	
Tax benefit associated with employee stock plans	—	—	3,200	—	—	3,200	
Foreign currency translation adjustment	—	—	—	—	841	841	\$ 841
Net unrealized gain on marketable securities	—	—	—	—	1,677	1,677	1,677
Reclassification adjustment for impairment loss on marketable securities included in earnings	—	—	—	—	1,881	1,881	1,881
Net income	—	—	—	1,275	—	1,275	1,275
Total comprehensive income							\$ 5,674
Balance at August 30, 2003	72,512	\$ 725	\$ 142,540	\$ 192,207	\$ 2,193	\$ 337,665	

See the accompanying notes to consolidated financial statements.

(In thousands)	Fiscal year ended		
	August 30, 2003	August 31, 2002	August 25, 2001
Operating activities:			
Net income	\$ 1,275	\$ 2,776	\$ 38,616
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,180	28,164	24,260
Impairment of property and equipment	1,156	1,136	3,526
Impairment of investment in Metron	4,452	—	—
Provision for doubtful accounts	(145)	133	(482)
Provision for deferred income taxes	(5,574)	(791)	(1,894)
Tax benefit from employee stock plans	3,200	5,291	3,413
Equity in net income of affiliates	144	—	(1,488)
(Gain) loss on sale of property and equipment	(310)	185	956
Gain on sale of equity investment	(145)	—	—
Minority interest in subsidiaries' net (loss) income	—	(798)	1,459
Changes in operating assets and liabilities:			
Trade accounts receivable	(11,727)	859	10,666
Trade accounts receivable due from affiliates	182	2,952	15,632
Inventories	4,156	8,373	(3,561)
Accounts payable and accrued liabilities	5,222	(21,710)	(369)
Other current assets	(760)	5,065	(2,748)
Income taxes payable and refundable income taxes	4,346	1,872	(6,546)
Other	(516)	(646)	(1,482)
Net cash provided by operating activities	32,136	32,861	79,958
Investing activities:			
Acquisition of property and equipment	(13,445)	(19,568)	(24,231)
Acquisition of businesses, net of cash acquired	(44,431)	(8,943)	(42,954)
Purchase of intangible assets	(1,146)	(824)	(10,701)
Proceeds from sales of property and equipment	1,962	1,300	3,464
Proceeds from sale of equity investment	327	—	—
Purchases of short-term investments	(39,281)	(90,200)	(36,628)
Maturities of short-term investments	59,364	82,204	—
Other	(891)	(2,302)	916
Net cash used in investing activities	(37,541)	(38,333)	(110,134)
Financing activities:			
Principal payments on short-term borrowings and long-term debt	(13,323)	(13,704)	(2,679)
Proceeds from short-term borrowings and long-term debt	17,633	13,809	747
Issuance of common stock	6,677	5,514	4,674
Repurchase of redeemable and nonredeemable common stock	—	—	(723)
Net cash provided by financing activities	10,987	5,619	2,019
Effect of exchange rate changes on cash and cash equivalents	134	232	(365)
Increase (decrease) in cash and cash equivalents	5,716	379	(28,522)
Cash and cash equivalents at beginning of period	74,830	74,451	102,973
Cash and cash equivalents at end of period	\$ 80,546	\$ 74,830	\$ 74,451
Non-cash operating and investing activities:			
Transfer of common shares owned in affiliate in connection with termination of distribution agreement	—	—	\$ 6,410

See accompanying notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation Entegris, Inc. (the Company) is a leading provider of materials integrity management solutions that protect and transport the critical materials used in the semiconductor and other high technology industries. The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Intercompany profits, transactions and balances have been eliminated in consolidation.

Basis of Presentation Certain amounts reported in previous years have been reclassified to conform to the current year's presentation.

Fiscal Year The Company's fiscal year is a 52-week or 53-week period ending on the last Saturday in August. Fiscal years 2003, 2002 and 2001 ended on August 30, 2003, August 31, 2002, and August 25, 2001, respectively, and are alternatively identified herein as 2003, 2002 and 2001. Fiscal 2002 included 53 weeks, while fiscal years 2003 and 2001 comprised 52 weeks.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-based Compensation The Company has two stock-based employee compensation plans. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The exercise price of the Company's employee stock options generally equals the market price of the underlying stock on the date of grant for all options granted, and thus, under APB No. 25, no compensation expense is recognized. The Company has adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-based Compensation*.

The accompanying table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

<i>(In thousands, except per share data)</i>	2003	2002	2001
Net income, as reported	\$ 1,275	\$ 2,776	\$ 38,616
Stock compensation expense – fair value based method	(6,549)	(5,126)	(3,331)
Pro forma net (loss) income	(5,274)	(2,350)	35,285
Basic net earnings per share, as reported	0.02	0.04	0.56
Pro forma basic net (loss) earnings per share	(0.07)	(0.03)	0.51
Diluted net earnings per share, as reported	0.02	0.04	0.53
Pro forma diluted net (loss) earnings per share	(0.07)	(0.03)	0.48

The Company determined pro forma compensation expense under the provisions of SFAS No. 123 using the Black-Scholes pricing model and the following assumptions:

	2003	2002	2001
Expected dividend yield	0%	0%	0%
Expected stock price volatility	77.16%	77.00%	72.00%
Risk-free interest rate	3.75%	4.50%	5.25%
Expected life	8 years	10 years	10 years

The weighted average fair value of options granted during 2003, 2002 and 2001 with exercise prices equal to the market price at the date of grant was \$5.06, \$6.88 and \$7.40 per share, respectively.

Cash, Cash Equivalents and Short-term Investments Cash and cash equivalents include cash on hand and highly liquid debt securities with original maturities of three months or less, which are valued at cost. Debt securities with original maturities greater than three months and remaining maturities of less than one year are classified and accounted for as held-to-maturity and recorded at amortized cost, and are included in short-term investments. The fair market value of short-term investments is essentially the same as amortized cost.

Inventories Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Property, Plant, and Equipment Property, plant and equipment are carried at cost and are depreciated principally on the straight-line method over the estimated useful lives of the assets. When assets are retired or disposed of, the cost and related accumulated depreciation are removed from the accounts, and gains or losses are recognized in the same period. Maintenance and repairs are expensed as incurred; significant additions and improvements are capitalized. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on estimated future undiscounted cash flows.

Investments The Company's marketable equity investments are classified as available-for-sale. Accordingly, such securities are recorded at fair value, with any unrealized holding gains and losses, net of taxes, excluded from income, and recognized as a separate component of shareholders' equity. The Company's nonmarketable investments are accounted for under either the cost or equity method of accounting, as appropriate.

All equity investments are periodically reviewed to determine if declines in fair value below cost basis are other-than-temporary. Significant and sustained decreases in quoted market prices and a series of historical and projected operating losses by investees are considered in the review. If the decline in fair value is determined to be other-than-temporary, an impairment loss is recorded and the investment written down to a new cost basis.

Goodwill and Other Intangible Assets Goodwill is the excess of the purchase price over the fair value of net assets of acquired businesses. Upon the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, in the first quarter of 2002, the Company no longer amortizes goodwill, but instead is required to test for impairment at least annually. See Note 6 for the pro forma effects of adopting this standard.

Other intangible assets include, among other items, patents and unpatented technology and are amortized using the straight-line method over their respective estimated useful lives of 5 to 17 years. The Company reviews intangible assets for impairment annually or more frequently if changes in circumstances or the occurrence of events suggest the remaining value is not recoverable.

Derivative Financial Instruments. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires the Company to record derivatives as assets or liabilities on the balance sheet and to measure such instruments at fair value. Changes in fair value of derivatives are recorded each period in current results of operations or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction.

The Company periodically enters into forward foreign currency contracts to reduce exposures relating to rate changes in certain foreign currencies. Certain exposures to credit losses related to counterparty nonperformance exist. However, the Company does not anticipate nonperformance by the counterparties as they are large, well-established financial institutions. None of these derivatives is accounted for as a hedge transaction under the provisions of SFAS No. 133. Accordingly, changes in the fair value of forward foreign currency contracts are recorded as a component of net income. The fair values of the Company's derivative financial instruments are based on prices quoted by financial institutions for these instruments. The Company was a party to forward foreign currency contracts with notional amounts of \$19.0 million and \$1.7 million at August 30, 2003, and August 31, 2002, respectively.

Foreign Currency Translation. Except for certain foreign subsidiaries whose functional currency is the United States (U.S.) dollar, assets and liabilities of foreign subsidiaries are translated from foreign currencies into U.S. dollars at current exchange rates. Income statement amounts are translated at the weighted average exchange rates for the year. Gains and losses resulting from foreign currency transactions are included in net income. For certain foreign subsidiaries whose functional currency is the U.S. dollar, currency gains and losses resulting from translation are determined using a combination of current and historical rates and are reported as a component of net income.

Revenue Recognition/Concentration of Risk The Company sells its products throughout the world primarily to companies in the microelectronics industry. Revenue and the related cost of sales are generally recognized upon shipment of the products. For certain customized precision cleaning equipment sales, which constituted less than 3% of sales, with installation and customer acceptance provisions, revenue is recognized upon fulfillment of such provisions. The Company recognizes revenues from construction contracts for certain customized clean-in-place equipment, which constituted less than 2% of sales, under the percentage-of-completion method, measured by the cost-to-cost method.

The Company provides for estimated returns and warranty obligations when the revenue is recorded. The Company sells its products throughout the world primarily to companies in the microelectronics industry. The Company performs continuing credit evaluations of its customers and generally does not require collateral. Letters of credit may be required from its customers in certain circumstances. The Company maintains an allowance for doubtful accounts which management believes is adequate to cover any losses on trade receivables.

Certain materials included in the Company's products are obtained from a single source or a limited group of suppliers. Although the Company seeks to reduce dependence on those sole and limited source suppliers, the partial or complete loss of these sources could have at least a temporary adverse effect on the Company's results of operations. Furthermore, a significant increase in the price of one or more of these components could adversely affect the Company's results of operations.

Income Taxes Deferred income taxes are provided in amounts sufficient to give effect to temporary differences between financial and tax reporting. The Company accounts for tax credits as reductions of income tax expense in the year in which such credits are allowable for tax purposes. The Company utilizes the asset and liability method for computing its deferred income taxes. Under the asset and liability method, deferred tax assets and liabilities are based on the temporary difference between the financial statement and tax basis of assets and liabilities and the enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Comprehensive Income (Loss) Comprehensive income (loss) represents the change in shareholders' equity resulting from other than shareholder investments and distributions. The Company's foreign currency translation adjustments and unrealized gains and losses on marketable securities are included in accumulated other comprehensive income (loss). Comprehensive income (loss) and the components of accumulated other comprehensive income (loss) are presented in the accompanying Consolidated Statements of Shareholders' Equity.

Recent Accounting Pronouncements In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, it retains many of the fundamental provisions of that Statement. SFAS No. 144 became effective for the Company during the first quarter of its fiscal year ending August 30, 2003. The adoption of SFAS No. 144 did not have an impact on the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a rollforward of the Company's product warranty liabilities. The Company adopted the disclosure requirements of FIN 45 beginning in the second quarter of fiscal 2003 and will apply the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which addresses accounting for restructuring and similar costs. SFAS No. 146 supercedes previous accounting guidance and is required for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires the recognition of the liability for costs associated with exit or disposal activities as incurred, whereas previous accounting guidance required that a liability be recorded when the Company committed to an exit plan. Accordingly, the accounting treatment of any exit or disposal activities initiated by the Company after December 31, 2002, may differ from the treatment used by the Company for previous exit or disposal activities, particularly as relates to the timing and disclosure of certain costs associated with the exit or disposal activities.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently in both annual and interim

financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for the Company's fiscal 2003. The interim disclosure requirements were adopted for the Company's third quarter of fiscal 2003.

In April 2003, the FASB issued SFAS No. 149, *Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, this Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative. It also clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The application of SFAS No. 149 did not have a material effect on the Company's consolidated financial statements.

(2) ACQUISITIONS

During the second quarter of fiscal 2003, Entegris completed two cash acquisitions totaling \$44.4 million. In January 2003, the Company acquired substantially all of the assets of Electrol Specialties Co. (ESC) in a cash transaction. ESC, an Illinois-based company, designs and fabricates stainless steel Clean-In-Place (CIP) systems to customers in the biopharmaceutical industry. Identifiable intangible assets and goodwill of approximately \$1.0 million and \$2.1 million, respectively, were recorded in connection with the transaction. Entegris retained ESC's existing management team and employees, and continues to manufacture CIP products at ESC's leased facility in Illinois.

In February 2003, Entegris acquired the wafer and reticle carrier (WRC) product lines of Asyst Technologies, Inc., a California-based provider of integrated automation systems. The total acquisition cost for all assets associated with Asyst's WRC product lines and intellectual property, including associated fees and expenses, was \$39.1 million. Entegris hired key Asyst employees involved with the research and development of these product lines and moved the production of the purchased WRC product line to its Chaska, Minnesota facilities. Identifiable intangible assets and goodwill of approximately \$1.8 million and \$33.9 million, respectively, were recorded in connection with the transaction.

The identifiable intangible assets of \$2.8 million recorded in connection with above acquisitions related to noncompete agreements, patents and customer relationships and are being amortized over years ranging up to 5 years.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the ESC and WRC product line acquisitions.

<i>(In thousands)</i>	ESC	WRC product line
Current assets	\$ 2,649	\$ 2,146
Property and equipment	482	2,591
Intangible assets	1,000	1,776
Goodwill	2,082	33,870
Total assets acquired	6,213	40,383
Current liabilities assumed	869	1,296
Net assets acquired	\$ 5,344	\$ 39,087

Each of the above transactions was accounted for by the purchase method. Accordingly, the Company's consolidated financial statements include the net assets and results of operations from the dates of acquisi-

tion. The following table provides Company results as if the acquisitions occurred at the beginning of each period presented.

<i>(In thousands, except per share data)</i>	2003		2002	
	As reported	Pro forma	As reported	Pro forma
Net sales	\$ 248,823	\$ 265,923	\$ 219,831	\$ 254,320
Net income	1,275	3,330	2,776	4,268
Basic earnings per share	0.02	0.05	0.04	0.06
Diluted earnings per share	0.02	0.04	0.04	0.06

The Company completed two transactions in 2002. In August 2002, the Company acquired assets related to products serving the semiconductor tape and reel market for \$2.0 million. Identifiable intangible assets, consisting principally of proprietary knowledge, of approximately \$1.8 million were recorded in connection with the transaction. In February 2002, the Company purchased the 49% minority interests held in its Fluoroware Valqua Japan K.K. and Nippon Fluoroware K.K. subsidiaries for total consideration of \$5.1 million. Identifiable intangible assets of approximately \$1.3 million were recorded in connection with the transaction.

The Company completed four acquisitions in fiscal 2001. In March 2001, the Company acquired the fluid handling component product line of Nisso Engineering Co., Ltd. a Japanese company for \$10.4 million. Patents and goodwill of approximately \$2.3 million and \$8.0 million, respectively, were recorded in connection with the transaction. In May 2001, the Company completed its acquisition of 100% of the common stock of NT International, which designs and manufactures patented ultrahigh purity flow and pressure measurement sensors and controllers, for a cash payment of \$27.5 million. Identifiable intangible assets, including patents, and goodwill of approximately \$18.5 million and \$12.1 million, respectively, were recorded in connection with the transaction. In the fourth quarter of fiscal 2001, the Company completed the acquisition of 100% of the common stock of Atcor Corporation and the operating assets and liabilities of Critical Clean Solutions, Inc., which provide precision cleaning systems, products and services to the semiconductor and data storage industries, for consideration totaling \$17.8 million, including cash payments of \$16.0 million and \$1.8 million, payable in common stock, in contingent consideration recorded in 2002. Identifiable intangible assets and goodwill of approximately \$7.6 million and \$7.7 million, respectively, were recorded in connection with the transactions.

(3) INVENTORIES

Inventories consist of the following:

<i>(In thousands)</i>	2003	2002
Raw materials	\$ 12,061	\$ 10,795
Work-in-process	1,663	2,163
Finished goods	23,811	25,436
Supplies	628	465
	\$ 38,163	\$ 38,859

(4) PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment consists of the following:

<i>(In thousands)</i>	2003	2002	Estimated useful lives
Land	\$ 10,911	\$ 10,811	
Buildings and improvements	61,410	60,928	5–35
Manufacturing equipment	82,928	78,647	5–10
Molds	68,561	65,556	3–5
Office furniture and equipment	48,749	47,411	3–8
	272,559	263,353	
Less accumulated depreciation	177,347	161,249	
	\$ 95,212	\$ 102,104	

Depreciation expense was \$22.6 million, \$24.4 million and \$22.0 million in 2003, 2002 and 2001, respectively. The Company recorded asset write-offs on molds and equipment of approximately \$1.2 million, \$1.1 million and \$3.5 million for 2003, 2002 and 2001, respectively. All impairment losses are included in the Company's cost of sales.

(5) INVESTMENTS

Investments include the Company's equity ownership in Metron Technology N.V. (Metron), a publicly traded security. Metron is a leading global provider of marketing, sales, services and support solutions to semiconductor materials and equipment suppliers and semiconductor manufacturers. The Company's investment in Metron is accounted for as an available-for-sale security. At August 30, 2003, the Company owned approximately 1.6 million common shares of Metron with a market value of \$6.1 million. At August 30, 2003, the unrealized gain on marketable securities was \$1.7 million, net of taxes of \$1.2 million.

At August 31, 2002, the market value of the Company's investment was \$4.4 million, reflecting an unrealized loss of \$1.9 million, net of tax benefits of \$1.2 million.

In the first quarter of 2003, the Company recorded an impairment loss, classified as other expense, of \$4.5 million, or \$3.3 million after taxes, related to the Company's investment in Metron. Prior to the impairment charge, the Company's investment in Metron stock had a carrying value of \$7.6 million. At November 30, 2002, the fair value of the investment was \$3.1 million, based on a price of \$2.00 per share, the closing price of Metron at that date. The decline in fair value was determined to be other-than-temporary. Accordingly, an impairment loss was recorded and the investment in Metron common stock written down to a new carrying value of \$3.1 million.

Through February 2001, the Company accounted for its investment in Metron using the equity method. In March 2001, the Company surrendered ownership of 1.125 million shares of its investment in Metron Technology N.V. (Metron) in connection with the transaction described in Note 12 under the caption "Other Charges". As a result, the Company's percentage ownership in Metron decreased to approximately 12%. Accordingly, the Company discontinued application of the equity method and began to account for Metron as an available-for-sale security.

At August 30, 2003, the Company also holds equity investments totaling \$2.5 million in certain nonpublicly traded companies accounted for under either the cost or equity method of accounting, as appropriate.

The Company's short-term investments, all of which are debt securities due within one year and are classified as held-to-maturity, consist of the following:

<i>(In thousands)</i>	2003	2002
Municipal bonds	\$ 20,217	\$ 36,002
Corporate debt securities	4,324	8,622
	\$ 24,541	\$ 44,624

The amortized cost, gross unrealized gains, gross unrealized losses and the fair value of the Company's short-term investments are as follows:

<i>(In thousands)</i>	2003	2002
Amortized cost	\$ 24,541	\$ 44,624
Gross unrealized gains	—	17
Gross unrealized losses	(110)	(122)
Fair value	\$ 24,431	\$ 44,519

(6) INTANGIBLE ASSETS

In July 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. Under the provisions of SFAS No.142, goodwill and intangible assets with indefinite lives are not amortized, but tested for impairment annually, or whenever there is an impairment indicator. Intangible assets with definite useful lives must be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

The Company adopted SFAS No. 142 as of August 26, 2001. As required by SFAS No. 142, the Company performed a transitional goodwill impairment assessment to determine whether there was an indication that goodwill was impaired at the date of adoption. In connection therewith, the Company determined that it consisted of a single reporting unit and determined the Company's fair value and compared it to the Company's carrying amount. As of August 26, 2001, the Company's fair value exceeded its carrying amount. Therefore, there was no indication that goodwill was impaired and the Company did not record any transitional impairment loss. In addition to its transitional goodwill impairment assessment, the Company also completed annual impairment tests with no adjustment to the carrying value of goodwill as of August 30, 2003, and August 31, 2002.

The changes in the carrying amount of goodwill for the years ended August 30, 2003, and August 31, 2002, are as follows:

<i>(In thousands)</i>	2003	2002
Beginning of year	\$ 31,310	\$ 30,266
Additions to goodwill as a result of acquisitions	36,170	1,044
End of year	\$ 67,480	\$ 31,310

Additions to goodwill in 2003 included \$36.0 million arising from acquisitions in 2003, and a \$0.2 million increase associated with a purchase price allocation adjustment of a prior year acquisition.

Additions to goodwill in 2002 included a \$1.8 million addition in connection with contingent consideration related to an acquisition completed in 2001, partly offset by a \$0.8 million reduction associated with a purchase price allocation adjustment of a prior year acquisition.

The following table presents a reconciliation of net income and earnings per share adjusted for the exclusion of goodwill, net of income taxes:

(In thousands)	2003	2002	2001
Net income:			
Reported net income	\$ 1,275	\$ 2,776	\$ 38,616
Add goodwill amortization, net of tax	—	—	1,230
Adjusted net income	\$ 1,275	\$ 2,776	\$ 39,846

	2003	2002	2001
Basic earnings per share:			
Reported basic earnings per share	\$ 0.02	\$ 0.04	\$ 0.56
Add goodwill amortization, net of tax	—	—	0.02
Adjusted basic earnings per share	\$ 0.02	\$ 0.04	\$ 0.58

	2003	2002	2001
Diluted earnings per share:			
Reported diluted earnings per share	\$ 0.02	\$ 0.04	\$ 0.53
Add goodwill amortization, net of tax	—	—	0.02
Adjusted diluted earnings per share	\$ 0.02	\$ 0.04	\$ 0.55

Other intangible assets, excluding goodwill, at August 30, 2003, and August 31, 2002, were as follows:

2003 (In thousands)	Gross carrying amount	Accumulated amortization	Net carrying value
Patents	\$ 18,416	\$ 5,320	\$ 13,096
Unpatented technology	9,844	2,185	7,659
Employment and noncompete agreements	5,837	1,718	4,119
Other	6,035	1,468	4,567
	\$ 40,132	\$ 10,691	\$ 29,441

2002 (In thousands)	Gross carrying amount	Accumulated amortization	Net carrying value
Patents	\$ 16,978	\$ 3,404	\$ 13,574
Unpatented technology	9,844	1,203	8,641
Employment and noncompete agreements	4,611	759	3,852
Other	5,040	813	4,227
	\$ 36,473	\$ 6,179	\$ 30,294

Amortization expense was \$4.5 million, \$3.7 million and \$2.3 million in 2003, 2002 and 2001, respectively.

Estimated amortization expense for the fiscal years 2004 to 2008 and thereafter is \$5.0 million, \$4.7 million, \$4.4 million, \$4.0 million, \$3.7 million and \$7.7 million, respectively.

(7) ACCRUED LIABILITIES

Accrued liabilities consist of the following:

(In thousands)	2003	2002
Payroll and related benefits	\$ 11,194	\$ 8,446
Employee benefit plans	2,839	2,843
Taxes, other than income taxes	1,123	1,036
Interest	70	53
Royalties	917	44
Accruals related to nonrecurring charges	316	160
Warranty and related	2,946	2,198
Other	6,447	5,299
	\$ 25,852	\$ 20,079

(8) WARRANTY

The Company accrues for warranty costs based on historical trends and the expected material and labor costs to provide warranty services. The majority of products sold are generally covered by a warranty for periods ranging from 90 days to one year. The following table summarizes the activity related to the product warranty liability during 2003 and 2002:

(In thousands)	2003	2002
Beginning of year	\$ 735	\$ 1,361
Accrual for warranties issued during the period	1,001	206
Assumption of liability in connection with acquisition	1,250	—
Settlements during the period	(921)	(832)
End of year	\$ 2,065	\$ 735

(9) LONG-TERM DEBT

Long-term debt consists of the following:

(In thousands)	2003	2002
Stock redemption notes payable in various installments along with interest of 8% and 9% through December 2010	\$ 2,961	\$ 3,308
Commercial loans secured by property and equipment payable on a monthly basis in principal installments of \$49, with interest ranging from 1.65% to 1.68% and various maturities through September 2015	1,593	2,651
Commercial loans secured by property and equipment payable on a semiannual basis in principal installments of \$39 and interest ranging from 4.5% to 6% and various maturities through December 2007	1,518	1,747
Small Business Administration loans payable on a monthly basis in principal installments of \$9 and interest ranging from 3.15% to 7.3% and various maturities through October 2020	2,842	2,898
Commercial loan secured by equipment payable on a monthly basis in principal installments of \$40 and interest ranging from 5.0% to 19.22% and various maturities through December 2005.	631	1,109
Industrial Revenue Bond secured by property payable on a semiannual basis with principal installments of \$50 through October 2012, and variable interest ranging from 1.05% to 2.20%	1,050	1,150
Private bond with interest of 1.7% and interest payable on a semiannual basis and full principal due in 2008	1,881	1,859
Other	6	113
Total	12,482	14,835
Less current maturities	2,412	2,144
	\$ 10,070	\$ 12,691

Annual maturities of long-term debt as of August 30, 2003, are as follows:

Fiscal year ending	(In thousands)
2004	\$ 2,412
2005	1,400
2006	886
2007	789
2008	812
Thereafter	6,183
	\$ 12,482

(10) SHORT-TERM BANK BORROWINGS

The Company has an unsecured revolving credit agreement, which expires in November 2003, with two commercial banks for aggregate borrowings of up to \$40 million with interest at LIBOR rates, plus 1.5%. There was \$5 million outstanding under this commitment at August 30, 2003, with interest at 2.69%. There was no balance outstanding at August 31, 2002. Under the unsecured revolving credit agreement, the Company is subject to, and is in compliance with, certain financial covenants including ratios requiring fixed charge coverage of not less than 1.10 to 1.00 and a leverage ratio of not more than 2.25 to 1.00. In addition, the Company must maintain a calculated consolidated and domestic tangible net worth, which, as of August 30, 2003, are \$204 million and \$125 million, respectively, while also maintaining consolidated and domestic aggregate amounts of cash and short-term investments of not less than \$75 million and \$40 million, respectively.

The Company has entered into unsecured line of credit agreements, which expire at various dates through 2005, with seven international commercial banks, which provide for aggregate borrowings of 301,000 euros, 2.5 million Malaysia ringgits and 1.7 billion Japanese yen for its foreign subsidiaries, which is equivalent to \$15.8 million as of August 30, 2003. Interest rates for these facilities are based on a factor of the banks' reference rates and ranged from 1.375% to 7.75% as of August 30, 2003. Borrowings outstanding under these line of credit agreements at August 30, 2003 and August 31, 2002, were \$11.5 million and \$8.9 million, respectively.

(11) LEASE COMMITMENTS

As of August 30, 2003, the Company was obligated under noncancelable operating lease agreements for certain equipment and buildings. Future minimum lease payments for noncancelable operating leases with initial or remaining terms in excess of one year are as follows:

Fiscal year ending	(In thousands)
2004	\$ 3,385
2005	2,589
2006	1,542
2007	1,085
2008	1,025
Thereafter	2,388
Total minimum lease payments	\$ 12,014

Total rental expense for all equipment and building operating leases was \$4.7 million, \$4.8 million and \$4.0 million in 2003, 2002 and 2001, respectively. See Note 22 for related party leases included above.

(12) OTHER CHARGES

During the first quarter of fiscal 2003, the Company recorded a pre-tax charge of \$1.8 million related to the relocation of its Upland, California operations and certain workforce reductions. The charge included \$0.9 million in termination costs related to a workforce reduction of approximately 75 employees, \$0.4 million for estimated losses for asset impairment and \$0.5 million for future lease commitments on the Upland facility. The Company recorded a pre-tax benefit of \$0.2 million in the fourth quarter of 2003 associated with the favorable settlement of a portion of the future lease commitments included in the aforementioned charge.

In 2002, the Company's results included a charge of \$4.0 million in connection with the closure of its Chanhassen, Minnesota plant. The charge included \$1.5 million in termination costs related to a workforce reduction of 230 employees and \$2.3 million for estimated losses for asset impairment.

In 2001, the Company recorded a charge of \$8.2 million related to the early termination of a distribution agreement for microelectronics products with its affiliate, Metron. Pursuant to the termination agreement, the Company assumed direct sales responsibility for microelectronics product sales in Europe and Asia, and transferred to Metron 1.125 million shares of Metron stock and agreed to make cash payments totaling \$1.75 million over a 15-month period. Entegris repurchased certain microelectronics product inventory from Metron. Concurrently, the Company and Metron executed a new distribution agreement for Entegris' fluid handling products, which now runs through August 31, 2005.

Also in 2001, the Company recorded a \$4.9 million charge in connection with the closing of its Castle Rock, Colorado and Munmak, Korea facilities. The charge included \$1.7 million in termination costs related to a workforce reduction of 170 employees and \$1.4 million for estimated losses for asset disposals. In addition, the charge included \$1.8 million for future lease commitments on the Castle Rock facility, the lessor of which is related to a major shareholder of the Company.

The Company recorded a pre-tax benefit of \$2.4 million in 2002 related to the reversal of previous accruals made in 2002 and 2001 related to the plant closures described herein. Approximately \$1.0 million of the reversal was associated with the favorable settlement of future lease commitments on the Castle Rock facility, for which the Company had recorded accruals in 2001. Lower than expected impairment costs accounted for approximately \$1.2 million of the reversals.

As of August 30, 2003, future cash outlays of \$0.7 million remained outstanding in connection with the aforementioned charges, and are primarily related to severance payments of \$0.5 million, which run through May 2004, and lease commitments of \$0.2 million, which run through July 2005.

(13) INTEREST INCOME, NET

Interest income, net consists of the following:

(In thousands)	2003	2002	2001
Interest income	\$ 1,790	\$ 2,684	\$ 5,982
Interest expense	(1,211)	(1,218)	(1,505)
Interest income, net	\$ 579	\$ 1,466	\$ 4,477

(14) OTHER EXPENSE (INCOME), NET

Other expense (income), net consists of the following:

(In thousands)	2003	2002	2001
(Gain) loss on sale of property and equipment	\$ (310)	\$ 185	\$ (146)
Impairment of investment in Metron	4,452	—	—
(Gain) loss on foreign currency translation	(201)	(808)	40
Gain on liquidation of foreign subsidiary	—	(733)	—
Other, net	482	383	(1,028)
Other expense (income), net	\$ 4,423	\$ (973)	\$ (1,134)

(15) INCOME TAXES

Income (loss) before income taxes was derived from the following sources:

<i>(In thousands)</i>	2003	2002	2001
Domestic	\$ (9,747)	\$ (8,192)	\$ 45,719
Foreign	4,918	6,797	14,391
	\$ (4,829)	\$ (1,395)	\$ 60,110

Income tax expense (benefit) is summarized as follows:

<i>(In thousands)</i>	2003	2002	2001
Current:			
Federal	\$ (2,611)	\$ (3,797)	\$ 16,395
State	(58)	—	2,309
Foreign	122	562	4,247
	(2,547)	(3,235)	22,951
Deferred:			
Federal	(2,110)	220	(1,500)
State	(275)	(358)	(112)
Foreign	(1,316)	—	—
	(3,701)	(138)	(1,612)
	\$ (6,248)	\$ (3,373)	\$ 21,339

Income tax expense (benefit) differs from the expected amounts based upon the statutory federal tax rates as follows:

<i>(In thousands)</i>	2003	2002	2001
Expected federal income tax at statutory rate	\$ (1,690)	\$ (489)	\$ 21,039
State income taxes, net of federal tax effect	(120)	(113)	1,503
Effect of foreign source income	(2,801)	(2,267)	60
Extraterritorial Income/Foreign Sales Corporation income not subject to tax	(1,000)	—	(1,142)
Impairment of investment in Metron	408	—	—
Research tax credit	(450)	(400)	(361)
Tax-exempt interest	(224)	(296)	(360)
Redetermination of prior years' taxes	(946)	—	—
Other items, net	575	192	600
	\$ (6,248)	\$ (3,373)	\$ 21,339

At August 30, 2003, there were approximately \$11.2 million of accumulated undistributed earnings of subsidiaries outside the United States that are considered to be reinvested indefinitely. No deferred tax liability has been provided on such earnings. If they were remitted to the Company, applicable U.S. federal and foreign withholding taxes would be offset by available foreign tax credits.

During the years ended August 30, 2003, and August 31, 2002, respectively, \$3.2 million and \$5.3 million was added to additional paid-in capital in accordance with APB No. 25 reflecting the tax difference relating to employee stock option transactions.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at August 30, 2003, and August 31, 2002, are as follows:

<i>(In thousands)</i>	2003	2002
Deferred tax assets:		
Accounts receivable	\$ 935	\$ 981
Inventory	2,555	2,780
Intercompany profit	1,114	675
Accruals not currently deductible for tax purposes	2,918	2,772
Net operating loss carryforwards	3,889	3,661
Tax credit carryforwards	1,847	1,846
Other, net	1,171	139
Valuation allowance	—	(1,369)
Total deferred tax assets	14,429	11,485
Deferred tax liabilities:		
Accelerated depreciation	4,218	4,121
Purchased intangible assets	9,316	8,625
Other, net	2,108	3,056
Total deferred tax liabilities	15,642	15,802
Net deferred tax assets (liabilities)	\$ (1,213)	\$ (4,317)

At August 30, 2003, the Company had federal net operating loss carryforwards of approximately \$5.0 million which begin to expire in 2011, state operating loss carryforwards of approximately \$17.4 million, which begin to expire in 2010, foreign net operating loss carryforwards of approximately \$1.2 million, which expire in 2007, foreign tax credit carryforwards of approximately \$1.5 million which expire in 2007, and research tax credit carryforwards of approximately \$0.9 million which begin to expire in 2009. The Company established a valuation allowance of \$1.4 million during 2002 with respect to the foreign net operating loss carryforwards, which was reversed during 2003. The reversal of the valuation allowance was based on a partial realization of the net operating loss carryforwards during fiscal 2003 and the current belief that sufficient taxable earnings will be generated in the future to allow the remaining net operating losses to be utilized. Realization of the remaining deferred tax assets is dependent on generating sufficient future taxable income and on the future reversal of taxable temporary differences. Although realization is not assured, the Company believes it is more likely than not that the benefit of these deferred assets will be realized.

(16) SHAREHOLDERS' EQUITY

Employee Stock Ownership Plan and Trust Entegris maintains an Employee Stock Ownership Plan and Trust (ESOT). The ESOT was amended to discontinue future contributions and to freeze participation in 1997. ESOT shares totaled 8,831,707 and 11,585,038 as of August 30, 2003, and August 31, 2002, respectively.

Stock Option Plans In August 1999, Entegris, Inc. established the Entegris, Inc. 1999 Long-Term Incentive and Stock Option Plan (the 1999 Plan) and the Entegris, Inc. Outside Directors' Stock Option Plan (the Directors' Plan). The maximum aggregate number of shares that may be granted under the Plans is 15,000,000 and 1,000,000, respectively.

Under the Directors' Plan, each outside director is granted an option to purchase 15,000 shares upon the date the individual becomes a director. Annually, each outside director is automatically granted an option to purchase 9,000 shares. Options will be exercisable six months subsequent to the date of grant under both the 1999 Plan and the Directors' Plan. The term of options shall be ten years, and the exercise price for shares shall not be less than 100% of the fair market value of the common stock on the date of grant of such option.

Option activity for the 1999 Plan and the Directors' Plan is summarized as follows:

	2003		2002		2001	
	Number of shares	Option price	Number of shares	Option price	Number of shares	Option price
<i>(Shares in thousands)</i>						
Options outstanding, beginning of year	7,469	\$ 5.94	7,071	\$ 4.94	7,307	\$ 3.78
Granted	1,961	6.63	1,747	8.39	1,457	9.17
Exercised	(1,163)	4.18	(1,222)	3.25	(1,228)	2.46
Canceled	(187)	9.13	(127)	10.05	(465)	6.58
Options outstanding, end of year	8,080	\$ 6.28	7,469	\$ 5.94	7,071	\$ 4.94
Options exercisable, end of year	4,455	\$ 5.29	4,636	\$ 4.37	4,683	\$ 3.57
Options available for grant, end of year	4,192		5,498		4,332	

Options outstanding for the 1999 Plan and the Directors' Plan at August 30, 2003 are summarized as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$0.96 to \$1.50	292	2.6 years	\$ 1.17	292	\$ 1.17
\$3.15	2,291	4.4 years	3.15	2,291	3.15
\$4.22	336	6.0 years	4.22	336	4.22
\$5.90	1,566	9.1 years	5.90	—	—
\$6.86 to \$7.50	220	7.7 years	7.47	97	7.49
\$7.53 to \$8.25	1,412	8.1 years	8.02	334	8.01
\$8.38 to \$10.00	1,184	7.8 years	9.09	581	9.22
\$10.19 to \$15.38	779	7.4 years	11.29	524	11.17

Employee Stock Purchase Plan In March 2000, the Company established the Entegris, Inc. Employee Stock Purchase Plan (ESPP). A total of 4,000,000 common shares were reserved for issuance under the ESPP. The ESPP allows employees to elect, at six-month intervals, to contribute up to 10% of their compensation, subject to certain limitations, to purchase shares of common stock at the lower of 85% of the fair market value on the first day or last day of each six-month period. As of August 30, 2003, 590,568 shares had been issued under the ESPP and plan participants had approximately \$0.3 million withheld to purchase the Company's common stock at the lower of 85% of the fair market value on the first day or last day of each six-month period ending December 31, 2003. Employees purchased 167,471, 167,097 and 256,000 shares at a weighted-average price of \$9.05, \$9.23 and \$6.34 in 2003, 2002 and 2001, respectively.

(17) 401(K) SAVINGS PLAN

The Company maintains the Entegris, Inc. 401(k) Savings and Profit Sharing Plan [the 401(k) Plan] that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Plan, eligible employees may defer a portion of their pretax wages, up to the Internal Revenue Service annual contribution limit. Entegris matches 100% of employees' contributions on the first 3% of eligible wages and 50% of employees' contributions on the next 2% of eligible wages, or a maximum match of 4% of the employee's eligible wages. In addition to the matching contribution, the Company's board of directors may, at its discretion, declare a profit sharing contribution of up to 11% of eligible wages based on the company's worldwide operating results. The employer profit sharing and matching contribution expense under the Plans was \$1.7 million, \$0.9 million, and \$3.3 million in 2003, 2002 and 2001, respectively.

Previously, the Company also sponsored the Entegris, Inc. Pension Plan (the Pension Plan), a defined contribution pension plan. Contributions to the Pension Plan were determined by a formula set forth in the plan agreement. Effective December 31, 2002, the Pension Plan was merged into the 401(k) Plan. Contributions to this plan were suspended for calen-

dar year 2002. Total pension expense for 2002 and 2001 related to this plan was \$0.3 million and \$1.6 million, respectively.

(18) EARNINGS PER SHARE (EPS)

Basic EPS is computed by dividing net income by the weighted average number of shares of common stock outstanding during each period. The following table presents a reconciliation of the share amounts used in the computation of basic and diluted earnings per share:

<i>(In thousands)</i>	2003	2002	2001
Basic earnings per share —			
Weighted common shares outstanding	71,636	70,358	68,747
Weighted common shares assumed upon exercise of options	3,836	3,812	4,248
Diluted earnings per share	75,472	74,170	72,995

Approximately 1.3 million, 0.6 million and 0.9 million of the Company's stock options were excluded from the calculation of diluted earnings per share in 2003, 2002 and 2001, respectively, because their inclusion would have been antidilutive.

(19) SEGMENT INFORMATION

The Company operates in one segment as it designs, develops, manufactures, markets and sells material integrity management products and services predominantly within the microelectronics industry. All products are sold on a worldwide basis.

The following table summarizes total net sales by markets served for 2003, 2002 and 2001, respectively:

<i>(In thousands)</i>	2003	2002	2001
Net sales:			
Semiconductor	\$ 189,950	\$ 175,741	\$ 298,721
Data storage	30,937	24,833	37,574
Services	20,170	17,285	5,952
Other	7,766	1,972	197
	\$ 248,823	\$ 219,831	\$ 342,444

The following tables summarize total net sales, based upon the country from which sales were made, and property, plant and equipment attributed to significant countries for 2003, 2002 and 2001, respectively:

<i>(In thousands)</i>	2003	2002	2001
Net sales:			
United States	\$ 171,356	\$ 160,568	\$ 249,455
Japan	35,330	26,407	45,749
Germany	4,036	9,350	27,735
Malaysia	36,601	22,186	15,057
Other	1,500	1,320	4,448
	\$ 248,823	\$ 219,831	\$ 342,444
Property, plant and equipment:			
United States	\$ 68,605	\$ 74,085	\$ 78,339
Japan	8,064	8,424	9,767
Germany	5,854	5,362	5,517
Malaysia	12,350	13,757	14,562
Other	339	476	946
	\$ 95,212	\$ 102,104	\$ 109,131

Net sales to external customers attributable to the United States amounted to \$103.0 million, \$103.1 million and \$170.9 million in 2003, 2002 and 2001, respectively. Net sales to external customers attributable to countries other than the United States amounted to \$145.8 million, \$116.7 million and \$171.5 million in 2003, 2002 and 2001, respectively. In 2003, 2002 and 2001, no single nonaffiliated customer accounted for 10% or more of net sales.

(20) SUPPLEMENTARY CASH FLOW INFORMATION

Schedule of interest and income taxes paid:

<i>(In thousands)</i>	2003	2002	2001
Interest	\$1,192	\$1,209	\$1,503
Income taxes, net of refunds received	(8,206)	(13,201)	28,460

(21) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash equivalents, short-term investments and short-term debt approximates fair value due to the short maturity of those instruments. The fair value of long-term debt was estimated using discounted cash flows based on market interest rates for similar instruments and approximated its carrying value of \$10.1 million at August 30, 2003.

(22) RELATED-PARTY TRANSACTIONS

Leases Through 2002, the Company leased office space and production facilities under various operating leases from entities related to a major

shareholder of the Company. The Company was required to pay for all real estate taxes, utilities and other operating expenses. Rent paid relating to these agreements totaled \$0.3 million and \$0.6 million, for 2002 and 2001, respectively. The Company has no future obligations under any lease agreements with entities related to the shareholder.

In May 2002, the Company paid \$500,000 as consideration for the early termination and buyout of future lease commitments on the Castle Rock facility, which was leased from an entity related to the shareholder, as described in Note 12 under the caption "Other Charges."

Metron Technology N.V. As described in Note 5 under the caption "Investments", the Company owned approximately 1.6 million shares of Metron at August 30, 2003. In addition, the Company recorded a charge of \$8.2 million in 2001 related to the early termination of a distribution agreement as described in Note 12 under the caption "Other Charges". Sales to Metron under current and previous distribution agreements were \$19.6 million, \$16.3 million and \$85.3 million in 2003, 2002 and 2001, respectively. Trade accounts receivable relating to these sales as of August 30, 2003 and August 31, 2002 were \$4.0 million and \$3.3 million, respectively.

(23) COMMITMENTS AND CONTINGENT LIABILITIES

In September 2002, Lucent Technologies, Inc. named the Company as a defendant along with Poly-Flur Engineering Inc., FSI International, Inc. and BOC Capital Group in an action filed in circuit court in Orange County, Florida for damages arising from a chemical spill at its facility in January 2000. To date, Lucent has requested aggregate damages from all defendants in the range of \$52 million, and has specifically requested damages of \$12 million from the Company. While the outcome of this matter cannot be predicted with any certainty, based on the information to date, the Company believes that it has valid defenses to the claims and, furthermore, has adequate insurance to cover any damages assessed against the Company and as such, does not believe that the matter will have a material adverse effect on its financial position, operating results or cash flows.

In addition, from time to time, the Company is a party to various legal proceedings incidental to its normal operating activities. Although it is impossible to predict the outcome of such proceedings, facts currently available indicate that no such claims will result in losses that would have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

(24) QUARTERLY INFORMATION-UNAUDITED

<i>(In thousands, except per share data)</i>	Quarter				
	First	Second	Third	Fourth	Year
Fiscal 2002					
Net sales	\$ 45,852	\$ 50,702	\$ 59,709	\$ 63,568	\$ 219,831
Gross profit	15,195	16,938	28,127	28,446	88,706
Net (loss) income	(5,916)	(1,386)	5,226	4,852	2,776
Basic (loss) earnings per share	(0.08)	(0.02)	0.07	0.07	0.04
Diluted (loss) earnings per share	(0.08)	(0.02)	0.07	0.06	0.04
Fiscal 2003					
Net sales	\$ 53,721	\$ 54,131	\$ 69,996	\$ 70,975	\$ 248,823
Gross profit	21,878	22,555	30,472	23,818	98,723
Net income (loss)	(5,642)	647	3,957	2,313	1,275
Basic earnings (loss) per share	(0.08)	0.01	0.06	0.03	0.02
Diluted earnings (loss) per share	(0.08)	0.01	0.05	0.03	0.02

The Board of Directors and Shareholders

Entegris, Inc.:

We have audited the accompanying consolidated balance sheets of Entegris, Inc. and subsidiaries as of August 30, 2003, and August 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended August 30, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Entegris, Inc. and subsidiaries as of August 30, 2003, and August 31, 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended August 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the consolidated financial statements, the Company changed its method of accounting for goodwill in fiscal 2002.

KPMG LLP

KPMG LLP

Minneapolis, Minnesota

October 2, 2003

SELECTED HISTORICAL FINANCIAL DATA*

(In thousands, except per share data)	Fiscal year ended							
	2003	2002	2001	2000	1999	1998	1997	1996
Operating results								
Net sales	\$ 248,823	\$ 219,831	\$ 342,444	\$ 343,465	\$ 241,952	\$ 266,591	\$ 277,290	\$ 271,037
Gross profit	98,723	88,706	162,670	160,442	92,230	109,734	119,238	122,304
Selling, general and administrative expenses	80,307	73,569	78,510	73,293	62,340	65,111	62,384	62,390
Engineering, research and development expenses	17,803	17,408	16,517	15,041	14,565	19,912	17,986	12,447
Operating profit (loss)	(985)	(3,834)	54,499	72,108	15,325	24,711	38,868	47,467
Income before income taxes and other items	(4,829)	(1,395)	60,110	74,631	11,677	17,989	30,015	44,281
Income tax expense (benefit)	(6,248)	(3,373)	21,339	26,754	4,524	4,565	11,976	16,226
Equity in net (income) loss of affiliates	144	—	(1,488)	(1,694)	1,587	118	(1,750)	(3,252)
Minority interest in subsidiaries net income (loss)	—	(798)	1,643	489	(399)	176	573	2,898
Net income before extraordinary item	1,275	2,776	38,616	49,082	5,965	13,130	19,216	28,409
Extraordinary loss on extinguishment of debt	—	—	—	(1,149)	—	—	—	—
Net income	\$ 1,275	\$ 2,776	\$ 38,616	\$ 47,933	\$ 5,965	\$ 13,130	\$ 19,216	\$ 28,409
Earnings per share data								
Earnings per share — diluted	\$ 0.02	\$ 0.04	\$ 0.53	\$ 0.73	\$ 0.10	\$ 0.21	\$ 0.31	\$ 0.45
Weighted shares outstanding — diluted	75,472	74,170	72,995	65,403	62,220	61,492	61,786	63,500
Operating ratios — % of net sales								
Gross profit	39.7%	40.4%	47.5%	46.7%	38.1%	41.2%	43.0%	45.1%
Selling, general and administrative expenses	32.3	33.5	22.9	21.3	25.8	24.4	22.5	23.0
Engineering, research and development expenses	7.2	7.9	4.8	4.4	6.0	7.5	6.5	4.6
Operating profit (loss)	(0.4)	(1.7)	15.9	21.0	6.3	9.3	14.0	17.5
Income before income taxes and other items	(1.9)	(0.6)	17.6	21.7	4.8	6.7	10.8	16.3
Effective tax rate	129.4	241.8	35.5	35.8	38.7	25.4	39.9	36.6
Net income	0.5	1.3	11.3	14.0	2.5	4.9	6.9	10.5
Cash flow statement data								
Depreciation and amortization	\$ 27,180	\$ 28,164	\$ 24,260	\$ 27,246	\$ 28,810	\$ 26,591	\$ 23,395	\$ 18,122
Capital expenditures	13,445	19,568	24,231	21,376	10,079	33,512	44,928	52,531
Net cash provided by operating activity	32,136	32,861	79,958	64,129	43,409	45,909	28,491	27,590
Balance sheet data								
Current assets	\$ 214,055	\$ 216,735	\$ 220,037	\$ 221,414	\$ 110,279	\$ 101,155	\$ 122,761	\$ 101,271
Current liabilities	54,289	39,621	61,253	62,544	58,372	56,567	69,006	56,352
Working capital	159,766	177,114	158,784	158,870	51,907	44,588	53,755	44,919
Current ratio	3.94	5.47	3.59	3.54	1.89	1.79	1.78	1.80
Long-term debt	10,070	12,691	13,101	10,822	53,830	73,242	75,971	61,916
Shareholders' equity	337,665	322,114	312,307	266,844	127,730	121,210	112,146	83,185
Total assets	417,666	390,260	405,815	353,368	246,978	257,475	213,643	265,343
Debt to equity ratio — %	3.0%	3.9%	4.2%	4.1%	42.1%	60.4%	67.7%	74.4%
Return on shareholders' equity — %	0.4%	0.7%	13.3%	24.3%	4.8%	11.3%	19.7%	38.0%
Shares outstanding at year end	72,512	71,161	69,730	68,317	60,000	60,553	60,774	58,539

* The above table includes certain items as described below. In addition, per share and shareholders' equity figures have been adjusted to reflect the reclassification of redeemable common stock no longer redeemable upon completion of the Company's initial public offering in July 2000. Operating results include the following charges or gains: **fiscal 2003** a charge of \$1.5 million (\$1.0 million after taxes) related to the closure of a facility and the impairment loss of \$4.5 million (\$3.3 million after taxes) of an equity investment; **fiscal 2002** a charge of \$4.0 million (\$2.5 million after taxes) related to the closure of two facilities, the reversal of previous nonrecurring charges of \$2.4 million (\$1.5 million after taxes) and a one-time tax benefit of \$1.4 million; **fiscal 2001** charges of \$8.2 million (\$5.1 million after taxes) related to the early termination of a distribution agreement and \$4.9 million (\$1.5 million after taxes) in connection with the closure of two facilities; **fiscal 2000** a gain of \$5.5 million (\$3.5 million after taxes) associated with the sale of an investment in an affiliate's common stock; **fiscal 1999** a charge of \$4.9 million (\$3.1 million after taxes) associated with merger-related expenses.

SHAREHOLDERS' INFORMATION

STOCK LISTING

The Company's common stock trades on the NASDAQ Stock Market® under the symbol ENTG.

NUMBER OF REGISTERED SHAREHOLDERS

On October 31, 2003, there were 72,627,592 shares outstanding and 282 registered shareholders.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held:

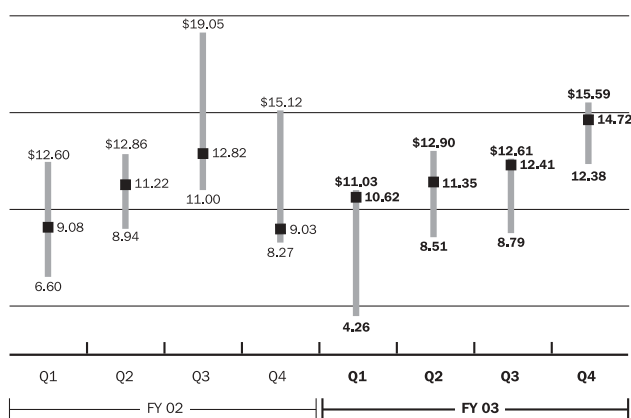
January 20, 2004 – 3:30 p.m. (Central Standard Time)
 Thrivent Financial
 625 Fourth Avenue South
 Minneapolis, MN 55415
 Tel. 612-340-7000

STOCK PRICE HISTORY

Since the Company's initial public offering on July 11, 2000, the range of the Company's common stock price through August 30, 2003, included a high of \$19.05 and low of \$4.26.

The chart below shows the intra-day high and low prices per share of common stock on the NASDAQ Stock Market throughout the quarters indicated and the closing price at the end of the fiscal quarter.

STOCK PRICE HISTORY BY FISCAL QUARTER



Fiscal year ends August.

High
 ■ Quarter End Close
 Low

INQUIRIES REGARDING YOUR STOCK HOLDINGS

Registered shareholders (shares held by you in your name) should direct questions regarding stock certificates, name or address changes, notification of lost certificates or stock transfers to:

Wells Fargo Bank Minnesota, N.A.
 Shareowner Services
 Post Office Box 64854
 161 North Concord Exchange Street
 South St. Paul, MN 55075-1139 USA
 Tel. 800-468-9716
 Fax 651-450-4033

Beneficial shareholders (shares held in the name of your bank or broker) should direct questions regarding all administrative matters to your stockbroker.

INVESTOR RELATIONS CONTACT

Heide K. Erickson, Director, Investor Relations
 Tel. 952-556-8051

INVESTOR INFORMATION

Request additional investor information, such as copies of the Company's Annual Report, Proxy Statement, Form 10-K and Form 10-Q reports filed with the Securities and Exchange Commission free of charge through one of the following:

Internet: www.entegris.com
 Mail: Entegris, Inc.
 Investor Relations
 3500 Lyman Boulevard
 Chaska, MN 55318 USA
 E-mail: irelations@entegris.com
 Tel.: 952-556-8080
 Fax: 952-556-8644

FORWARD-LOOKING STATEMENTS

The information in this Annual Report, except for the historical information, contains forward-looking statements. In addition, the words "anticipate," "plan," "believe," "estimate," "expect" and similar expressions as they relate to the Company or management are intended to identify forward-looking statements. All forward-looking statements involve risks and uncertainties. You should not place undue reliance on these forward-looking statements, as actual results could differ materially from expected or historical results. The Company does not assume any obligation to publicly release the results of any revision or updates to these forward-looking statements to reflect future events or unanticipated occurrences. Additional information about these risks and uncertainties has been identified in the Company's Annual Report on Form 10-K.

CORPORATE INFORMATION

CORPORATE HEADQUARTERS

Entegris, Inc.
 3500 Lyman Boulevard
 Chaska, Minnesota 55318 USA
 Tel. 952-556-3131
 Fax 952-556-1880

CORPORATE WEB SITE

www.entegris.com

GENERAL COUNSEL

Dunkley, Bennett, Christensen & Madigan, P.A.
 Minneapolis, Minnesota

INDEPENDENT AUDITORS

KPMG LLP
 Minneapolis, Minnesota

EXECUTIVE OFFICERS

James E. Dauwalter
 President and Chief Executive Officer

Gregory B. Graves
 Chief Business Development Officer and
 Senior Vice President Finance

Brad C. McMahon
 Senior Vice President of Human Resources

John D. Villas
 Chief Financial Officer

Michael W. Wright
 Chief Operating Officer

BOARD OF DIRECTORS

James A. Bernards, 57
 President, Facilitation, Inc.

Robert J. Boehlke, 62
 Executive Vice President and Chief Financial Officer,
 KLA-Tencor Corporation (Retired)
 Chairman: Audit Committee
 Compensation and Stock Option Committee
 Nominating and Governance Committee

James E. Dauwalter, 52
 President and Chief Executive Officer, Entegris, Inc.

Stan Geyer, 54
 Chairman of the Board, Entegris, Inc.

Gary F. Klingl, 64
 President, Green Giant Worldwide,
 A Division of The Pillsbury Company (Retired)
 Chairman: Compensation and Stock Option
 Committee
 Nominating and Governance Committee

Roger D. McDaniel, 64
 Chief Executive Officer, MEMC (Retired)
 Chairman: Nominating and Governance
 Committee
 Compensation and Stock Option Committee
 Audit Committee

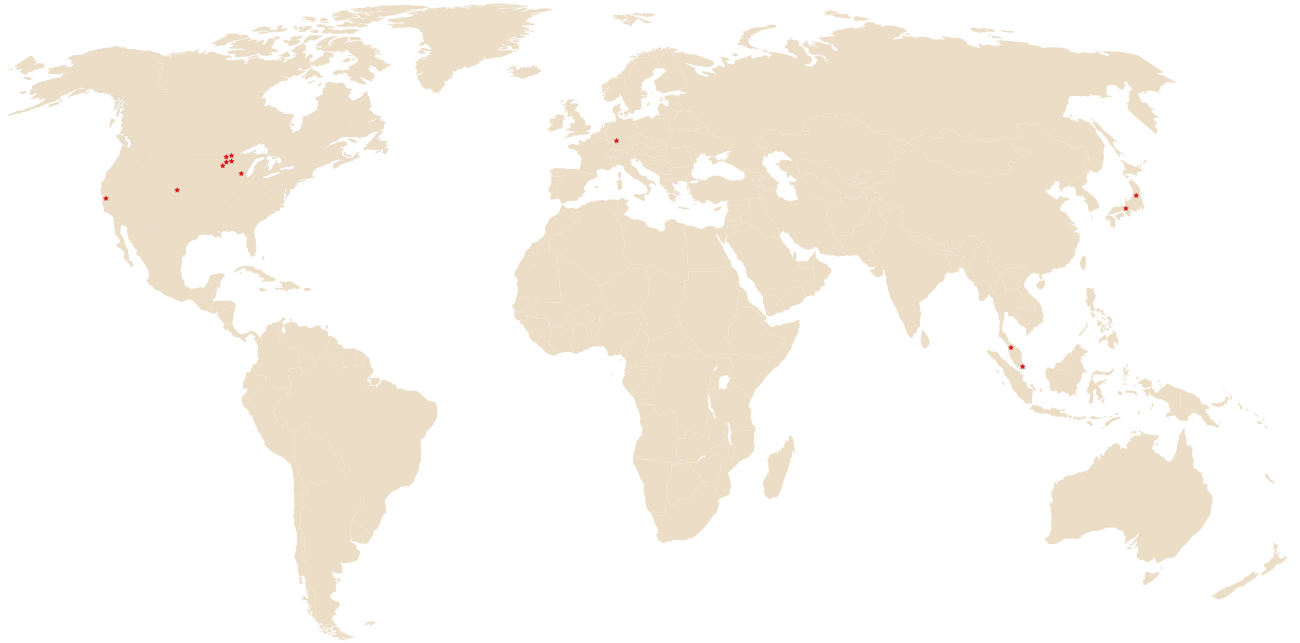
Daniel R. Quernemoen, 72
 Chairman Emeritus
 Chairman of the Board, Entegris, Inc. (Retired)

Paul L. H. Olson, 53
 Executive, Bethel College and Seminary
 Audit Committee
 Nominating and Governance Committee

Trademarks:
 Entegris® is a registered trademark and HotZone™ is a trademark of Entegris, Inc.
 The NASDAQ Stock Market® is a registered trademark of the Nasdaq Stock Market, Inc.

Credits:
 Annual Report Design, Schermer Kuehl
 Illustrator, Nancy Stahl
 Writer, Jason Meeker

MANUFACTURING AND OFF-SITE SERVICE LOCATIONS



UNITED STATES

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Fax 81-238-28-2731

Entegris Japan, Inc.
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Hitachinaka-shi
Ibaraki
311-1251 Japan
Tel. 81-29-265-7828
Fax 81-29-265-5054



The materials integrity management company

MAKE HISTORY OR BE HISTORY

Defining the Future of Materials Integrity Management

“Entegris has a business culture in which our values of integrity, excellence, respectful relationships and financial success frame the behavior and performance for each member of Team Entegris. This culture is providing the best solutions possible for our customers and rewarding our shareholders.”

— **Stan Geyer**
Chairman of the Board

“We have been successful in maintaining and growing market leadership in materials integrity management. I firmly believe that as industry conditions improve, we will see great opportunity to leverage our infrastructure and continue to expand our materials integrity management expertise.”

— **James E. Dauwalter**
President and Chief Executive Officer

“Entegris’ proud history was built by developing new technologies and services to help our customers become more profitable. We’ll continue to innovate, expand competencies and partner with our customers to become even more valuable. At the same time, we will continue to look for ways to become more efficient in everything we do.”

— **Michael W. Wright**
Chief Operating Officer

“We’ve achieved another year of annual profitability in fiscal year 2003. We grew our business in core and new markets, while concentrating on operational efficiencies and asset management. Our financial strength provides one of the cornerstones to expand the scope and scale of Entegris.”

— **John D. Villas**
Chief Financial Officer



The materials integrity management company