



To our stockholders, customers, employees, suppliers, and friends—

It's Q1, 2004. If 2003 had been a horse-race, right now we'd be charging out of the backstretch. A regatta—rounding the mark for the spinnaker run. A marathon—coming off the top of heartbreak hill. Whatever the analogy, like the two years before it, 2003 presented us with a difficult course. The right moves in product development and in worldwide operations kept us at the front of the pack. With more of the right moves in 2004—we'll break away.

Year 2003 Results.

Net sales in 2003 were \$262.4 million compared with \$238.9 in 2002—a 10% increase. Our net loss this year was \$44.2 million, or \$1.37 per diluted share, compared with a net loss of \$41.4 million, or \$1.29 per diluted share, in 2002. Gross profit increased to \$87.9 million from \$68.8 million. And gross margin was 33.5% in 2003 compared with 28.8% in 2002.

We improved SG&A expense, without amortization of intangible assets, to \$49.3 million, or 18.8% of sales from \$60.1 million, or 25.1% of sales in 2002. R&D increased in dollars to \$51.6 million in 2003 over \$49.0 million for 2002, but as a percent of sales, it declined to 19.7% in 2003 from 20.5% in 2002.

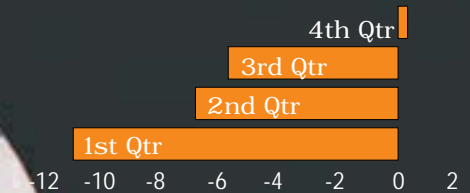
We ended the year with \$135.2 million of cash and marketable securities; \$206.2 million of working capital; \$414.7 million of total assets; and \$151.8 million of stockholders' equity.

As you can see, it wasn't exactly a championship year for us from a numbers standpoint. But let me explain how it was highly successful in other ways—and how those things will make a difference in the numbers to come. In fact, if you'll look at Q4 results, you'll see the impact taking effect.

Progress consists of small and constant corrections.



Income (Loss) From Operations
\$ millions





Vigilance, tact,
persistence, force,
daring—success.

The Track Behind *Year 2003 Review*

With the industry downturn persisting for a third year, we approached 2003 with our continuing strategy: use our time to condition ourselves for the upturn. Shape talent and sharpen skills. Refine techniques and perfect plays. Build teamwork and strengthen relationships. Approach every challenge as a contest to win or lose. Score the most points possible. And above all, learn which moves make the difference.

We won a lot. Our lead in technology continued to lengthen with design wins across nearly all of our product lines and

markets, especially 300 mm semiconductor, flat panel, and architectural glass.

As in the two previous years, to offset sluggish demand, we focused our research and development on core product groups—power, flow, thermal, and plasma and ion sources—where we are able to realize more high value revenue. And by developing comprehensive solutions, we were able to offer higher value products at lower cost.

In some cases, we added to the breadth of our offerings in various markets—for example, selling source technology and flow control products where we had previously only sold power products.

Loyalty, vision,
integrity, teamwork,
tenacity—leader-

And it seemed like we lost one, too—a space with a customer we'd charted to win. This company clearly preferred our technology, but to meet its aggressive delivery schedule, we would have had to compromise product quality. Yet, as I write this, that customer has reopened discussions with us—because they want the better solutions. We never accept defeat gracefully. We analyze it ruthlessly, discover our weakness, rebuild our strength, and try again.

Perhaps our most meaningful feats, apart from improving our relationships with customers, came from bringing our China facility on line and outsourcing to Tier One Asian suppliers—initiatives planned to cut costs and improve response times at both the top and bottom of industry cycles. In only five months from the time we signed a lease for the 88,000 square foot facility in Shenzhen, we were qualifying our first power products. And all this in spite of the travel restrictions imposed by homeland security orders, the war in Iraq, and the SARS outbreak. The phone bill was a little high, but we saved on airfare!


By Q3, we had transferred the manufacture of six products to this state-of-the-art facility, passed factory audits, and were shipping product to several of our OEMs. Concurrently, we saw cost reductions and quality improvements from our Tier One Asian suppliers.

The real impact of the savings was not as obvious in 2003 because of the duplication in manufacturing and supplier costs during the transition. But with each new quarter, the savings will grow.

Finally, we continued to strengthen customer relationships and improve customer response. We consolidated operations, relocated production lines, and sold facilities. Unhappily, we also reduced headcount—always a difficult decision.

This year we made the hard moves, the smart moves, the crucial moves we had to make. In a tight race under difficult conditions, the *right* moves make all the difference.





Every goal
tests our skill—
and will.

The Course Ahead *Year 2004 and Beyond*

By Q4, the difference was becoming obvious. Seeing income from operations for the first time in ten quarters is a great motivator in pursuing more cost-containment efforts. We believe we're on course for a medal year. The big news, of course, is that markets are improving: by year's end, sales to semiconductor equipment and flat panel display customers posted double-digit growth. In fact, we see growing strength across all our product lines as a result of our strong record of design wins throughout the downturn.

Customers choose our products because they're looking for real value. And because they offer greater precision, better reliability, and more repeatability in the manufacture of larger wafers, the applications of smaller geometries, and the use of new materials. With the indus-

try expanding in these directions, we not only see higher-dollar revenue sales, but more opportunities.

In the data storage sector, there has been a sizable rise in demand for recordable discs. The equipment for this manufacturing process requires more of our products than for prerecorded discs. And architectural glass manufacturing offers expanding possibilities.

Applications continue to grow outside of our traditional markets as well, as in the surface treatments of glass, metals, fabric, optics, and polymers. R&D investments here have the potential to create markets less subject to cyclical peaks and troughs.

And our efforts in China and with our Tier One Asian suppliers are progressing splendidly. As the production ramp-up continues, we're in position to make our move.

The Athletes Within
Teamwork and Coaching

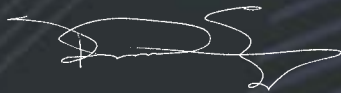
Our every effort, every contest, and every win involves our tireless and exceptional employees. In the face of disheartening obstacles, they are motivated. In the face of interminable projects, they are relentless. Even in the face of uncertain futures, they are loyal. They are the epitome of performance under pressure. And I am their greatest fan.

Eyes on the Prize

In most sports, there's an inspirational, ultimate goal—say, a blanket of roses, a silver cup, or an Olympic medal. In our business we have one, too: sustained profitability. It's a marathon with many mileposts. I want you to know that we're on course. Track conditions are improving. We've got our eyes on the prize. And we're making the right moves.

Watch us win.

Thank you for your continuing interest and support.



Douglas S. Schatz
Chairman, President, and CEO

Success is
built upon
daily victories.



2003 Revenue Mix by Industry

- 59% Semiconductor
- 11% Flat Panel Display
- 10% Data Storage
- 20% Advanced Product Applications



2002 Revenue Mix by Industry

- 68% Semiconductor
- 8% Flat Panel Display
- 6% Data Storage
- 18% Advanced Product Applications



2003 Markets by Geographic Area

- 47% US and Canada
- 19% Europe
- 34% Asia/Pacific



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Semiconductors, CDs, DVDs, Architectural Glass Coatings, MRIs, Flat Panel Displays, and Optical Coatings.

